

# FINANCIAL TIMES



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**Car marketing**  
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## UN environment agency reforms hit opposition

Spain, Britain and the US are withholding their 1997 contributions to the United Nations Environment Programme after some developing countries subverted attempts to reform the troubled environment agency, western officials say. Environment ministers had been expected to approve the long-delayed reforms in Nairobi last week, but the meeting ended in acrimony after India, Bangladesh, and Colombia led last minute opposition to the plans. Page 12

**Russia raises Nato stakes:** Russian security chief Ivan Rybkin said Moscow should be ready to unleash nuclear missiles in response to any attack by conventional forces. His policy proposal is Russia's latest hostile reaction to Nato's planned eastward expansion. Page 12

**Timmer quits Philips:** Jan Timmer, who led Philips from near bankruptcy five years ago, quit as a non-executive director of the Dutch electronics group less than four months after handing over to new president Cor Boonstra. The company would not elaborate on Mr Timmer's "personal" reasons for going. Page 13

**General Electric of the US** has quit negotiations to build engines for a 375-seat aircraft planned by Airbus Industrie, the European manufacturing consortium, because of differences over the sharing of development costs. Page 4

**Fannie Mae, the US Federal National Mortgage Association,** launched the first sterling-denominated global bond, reflecting the pound's growing strength against other European currencies. Page 13; Currencies, Page 23

**More Albanian protests:** At least 30,000 angry mourners poured through the Albanian port of Vlora behind the coffin of an anti-government demonstrator killed in clashes with police. Later more than 10,000 people gathered to protest against the government's handling of failed investment schemes.

**Reuters cautious:** Reuters shares fell 16p to 626p after the financial information and media group issued a cautious outlook on trading. Pre-tax profits rose 17 per cent in 1996 to £701m (\$1.1bn). Page 13; Lex, Page 12; London stocks, Page 30

**Ericsson profits jump:** The Swedish telecom group shrugged off price competition in its flagship mobile phones division to report a 39 per cent jump in fourth-quarter pre-tax profits to SKr3.9bn. Page 13

**Thai cabinet backs cuts:** Thailand's cabinet approved \$2bn of budget cuts over the next two years. The reductions are aimed at reversing the country's worst economic performance for 10 years. Page 12

**Serbs prepare for privatisation:** The Serbian government named businessman Milan Boko to head a new ministry that will begin the privatisation of the huge state sector. To allay public disquiet, prime minister Mirko Marjanovic said there would be a safety net to protect society from the effects of market reforms.

**Pigs catching up:** Belgium may soon have as many pigs as people. Provisional data show the pig population grew by 270,000 to 7.4m in 1996, closing in on the human population of 10m.

**Space shuttle is off on Hubble mission:**



The US space shuttle Discovery and its crew of seven blasted off on a mission to modernise the Hubble Space Telescope by swapping old instruments for new. Three of the astronauts - Steven Smith (left), pilot Scott Horowitz (centre) and shuttle commander Ken Bowersox - are pictured on their way to the launch pad at Cape Canaveral in Florida. Astronauts last visited Hubble in 1993 to correct its blurred vision.

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STOCK MARKET INDICES	
New York Composite	+30.02
Dow Jones Ind. Av.	+30.02
NASDAQ Composite	+1,324.15
Europe and Far East	
DAX	+2,592.00
FTSE 100	+2,187.88
Nikkei	+2,404.3

US LUNCHTIME RATES	
Federal Funds	5 1/4%
3-month Treasury Bill	5.134%
Long Bond	5.71%
Yield	5.704%

OTHER RATES	
UK 3-month Interbank	6.1%
UK 10 yr Govt	10.2%
France 10 yr Govt	10.7%
Germany 10 yr Govt	10.1%
Japan 10 yr JGB	10.4%

NORTH SEA OIL (Argus)	
Brent Dated	\$21.25
Brent 12/97	\$21.71

STERLING	
DM	2.7462
£/DM	0.3641

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## Fujimori would offer aircraft to guerrillas but would pay no ransom

# Peru ready for deal to free Lima hostages

By Stephen Fidler in London and Sally Bowen in Lima

President Alberto Fujimori of Peru said yesterday he was ready to put an aircraft at the disposal of the guerrilla group holding 72 hostages at the Japanese ambassador's residence in Lima - but that he would pay no ransom.

Preliminary talks with members of the Tupac Amaru Revolutionary Movement (MRTA) were due to start yesterday in Lima amid tight security.

Speaking in London, where he was attending a Latin American trade and investment conference, Mr Fujimori said the final objective was to find a formula to allow the hostage-takers to save face.

He reiterated his position that the guerrillas' main demand - the release of colleagues jailed in Peru - was not negotiable.

He said he had found no government yet to accept the guerrillas, who stormed the residence at a cocktail party on December 17, initially taking more than 400 hostages.

Mr Fujimori agreed there were similarities between the Lima incident and the assault in 1980 by guerrillas from the Colombian group, M-19, on the embassy of the Dominican Republic in Bogotá. "Both groups were after money," he said.

The M-19 incident ended peacefully after 61 days when the guerrillas were provided with an aircraft, in which they flew with some hostages to Cuba, and at least \$2m. Mr Fujimori said, however, he was not disposed to pay a ransom. "It would build eight schools," he said.

Mr Fujimori said he had not yet contacted Cuba about the hostages, but reminded journalists that President Fidel Castro of Cuba was "a personal friend".

Mr Fujimori said his approach to the crisis would have been exactly the same had the incident occurred on Peruvian soil instead of in the Japanese ambassador's residence, effectively denying suggestions that he had been restrained by the Japanese



President Alberto Fujimori in London yesterday where he was attending a trade meeting. (Reuters)

government from taking firmer action.

Asked if he was running out of patience, Mr Fujimori, who is descended from Japanese immigrants, said: "I have oriental patience - except if there were to be victims, and that would be a different thing."

Shortly before yesterday's "preliminary discussions" with the hostage-takers were due to

begin, Mr Luis Cipriani, ultra-conservative archbishop of Ayacucho and confidant of Mr Fujimori, called for "discretion and responsibility" in handling the "highly confidential" encounter. Mr Cipriani is one of four neutral "guarantors" observing the talks.

Mr Fujimori said the carefully planned attack on the embassy was surprising, but

indicated no failure of Peru's intelligence services, since such incidents could take place anywhere in the world.

Neither did it imply a resurgence in terrorism in Peru, which has been subdued since he took office in 1990. The presence of their active leader at the residence "is an

Continued on Page 12

## Top Italian savings bank seeks alliance

By Paul Betts in Milan

Cariplo, Italy's largest savings bank, has made a formal approach to Banco Ambrosiano Veneto, a large private-sector bank also based in the rich industrial north, about forging a strategic alliance.

The proposal, if successful, could lead to a merger which would create one of the country's largest banking groups with total deposits of £250,000m (\$153.5bn).

Cariplo's approach to Ambrosiano is part of an series of intense behind-the-scenes manoeuvres in the Italian banking system, driven by an urgent need to restructure, modernise, consolidate and privatise in the face of growing international competition.

## Cariplo makes formal approach to Ambrosiano

Mr Giuseppe Guzzetti, the new chairman of the charitable foundation which controls Cariplo, said last week that the bank needed an alliance with another strong north Italian banking group, as well as a link with foreign institutions.

Ambrosiano, in which the French group Crédit Agricole owns a 29 per cent stake, is widely seen as Cariplo's preferred partner, although Banca Commerciale Italiana is also considered a possibility.

The recent Banco di Napoli takeover by Banca Nazionale del Lavoro and the INA insurance group has also changed the basis of existing ties between Italian banks and

insurance companies. Cariplo has made clear it is reviewing its stakes in both INA and the IMI medium-term bank in the light of the changes in the shareholding structures of Italian banking institutions.

The Milan-based savings bank also emphasised it wanted to strengthen its presence in the north after the losses it has incurred in southern Italy. The restructuring and write-downs of its southern operations are expected to lead to a sharp fall in Cariplo's net profits for 1996. These are expected to amount to barely £8m, compared with £341m in 1995.

Although the savings bank

wants to be privatised this year, Mr Guzzetti, a former Christian Democrat president of the Lombardy region, said he favoured privatisation initially through a strategic alliance rather than a stock market flotation. A first attempt to float Cariplo was abandoned in 1994 because of poor market conditions.

Cariplo's approach to privatisation reflects the current

difficulty of most Italian banks, whose low return on equity makes them unattractive sell-off candidates.

The banks are also reluctant to abandon old ways of doing business and are therefore seeking alliances with friendly partners before considering going to the open market.

Most bankers now expect the pace of privatisation to speed up after languishing for the past four years.

Treasury urged, Page 3

## Unilever seeks \$8bn from speciality chemicals sale

By Frederick Oram in London and Gordon Cramb in Rotterdam

Unilever put its speciality chemicals businesses up for sale yesterday, intending to deploy the \$5bn-£5bn (\$8.2bn-£8.8bn) of proceeds to bolster its global activities in food and personal products.

The most radical realignment of the Anglo-Dutch company in its 67-year history was well received by investors frustrated by the group's sluggish growth in recent years. The shares closed ahead about 5 per cent, up 78p at 1,471 1/2p in London and Ft 17.9 at Ft 351.3 in Amsterdam.

"Now there is no place for people to hide," said Mr Niall FitzGerald, chairman of the UK arm of Unilever. "Now there will be clear understanding of what this company is about."

The surprise announcement triggered a flood of rumours about potential buyers of the chemicals business and targets Unilever might hunt in con-

sumer goods. Adding debt to the cash proceeds of the sale, the group could have up to £10bn to spend, analysts estimated.

Unilever's speciality chemicals portfolio includes National Starch, the world's leading industrial adhesives maker, Quest, a leading fragrance and food ingredient supplier, Unichema, the world leader in oleochemicals, and Croda, an inorganic chemicals producer.

Many of the world's biggest chemical companies are expected to be among bidders for one or all of them.

Speciality chemicals is one of Unilever's best businesses, last year accounting for about 13 per cent of its profits and generating an operating margin of 14.1 per cent. Mr Morris Tabakshat, chairman of Unilever's Dutch arm, said.

But the business was capital-intensive, and "when we brought it under our banner in the 1970s we thought there would be greater cross-linkages" with the consumer

products side, Mr Tabakshat explained. Only a small minority of sales are to Unilever.

Unilever decided it had to double its scale in the sector at a time of "frantic" rationalisation in the industry or quit. It expected to get a better price now rather than wait until rationalisation had run its course.

Potential investment targets for Unilever include some of the biggest and most successful names in food such as Heinz, Campbell's Soup and CPC, analysts said.

All of them have the hallmark Unilever is seeking: food products to sell in rapidly developing markets in central and eastern Europe, Asia and Latin America.

"The trick is to get both sides of the bargain right," said Mr David Lang, an analyst with Henderson Crosthwaite.

Double trouble takes shine off Unilever, Page 20, Lex, Page 12

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## NEWS: EUROPE

Public sector lender points to brake on investment in spite of lower interest rates

## French local authorities to cut debt

By Andrew Jack in Paris

French local authorities plan to reduce their debt in real terms this year, helping to cut the country's budget deficit and boosting efforts to qualify for the proposed European single currency, a leading lender to the public sector said yesterday.

Mr Pierre Richard, chairman of Crédit Local de France, which recently merged with its Belgian counterpart to form the group Dexia, said debt levels were falling in spite of lower interest rates and the considerable potential to launch new investment projects.

In Crédit Local's annual analysis, Mr Richard said local authorities would add just FF10bn (\$1.5bn) to their debt levels; they could, however, borrow up to an additional FF25bn without jeopardising France's ability to meet the Maastricht criterion for monetary union whereby the government's budget deficit must be no more than 3 per cent of gross domestic product.

Aggregate operating receipts by local authorities will rise 3 per cent to FF647bn this year, while resources from investment including state grants and borrowings will remain almost unchanged from last year at FF112bn.

Management costs will rise by 4 per cent to FF44bn, while reimbursements of existing debt will increase 9 per cent to FF63bn and debt servicing charges will fall by nearly 8 per cent to FF51bn.

The figures cover the budgets of France's 60,000 communes, departments, regions and other political institutions and related organisations, which have played a growing role in the national economy over the past few years after reforms designed to decentralise power from Paris.

Mr Richard warned that local authorities were "committing a strategic error" by turning to

increased taxation rather than seeking outside finance for investment projects.

Overall, local taxes during the year will rise by 7 per cent, above the pace of growth of the economy for the seventh year running. Mr Richard said this risked triggering increased frustration from companies and households.

He said that the brake on investment was largely the result of political, administrative and "even psychological" factors rather than any financial handicap, notably given the reduction in the past few months of interest rates.

He argued that economic growth

would be around 2 per cent over the year.

Mr Louis Gallois, head of the French state-owned SNCF rail company, said yesterday he expected the organisation to make a 1997 loss of FF22bn, rather than FF15bn as expected before the government's rail reforms were cleared by parliament, writes David Owen in Paris.

Under the reforms, the government is to take over FF134bn of the company's debts and future responsibility for rail infrastructure. Mr Gallois compared the transfer to a lead weight that had been lifted.

## Serbia passes law conceding opposition victories

By Guy Dinmore in Belgrade

Serbia's Socialist-dominated parliament last night passed a law reinstating opposition victories in local elections after more than 11 weeks of anti-government demonstrations.

The pro-democracy coalition Zajedno (Together) boycotted the session, while the ultra-nationalist Serbian Radical party tried to delay the law's passage, arguing it was unconstitutional. However, the law was pushed through by the large coalition dominated by President Slobodan Milosevic's Socialists.

Analysts said mass protests across Serbia, combined with international and financial pressures, had forced Mr Milosevic to reverse his annulment of opposition victories.

The law was introduced in acceptance of a report by the Organisation for Security and Co-operation in Europe, which said Zajedno had won majorities in 14 cities, including the capital, as well as eight Belgrade municipalities. A parliamentary committee rejected an amendment by the opposition claiming victory in two additional municipalities.

Parliament also ratified a government reshuffle which included establishing a ministry for economic restructuring to deal with privatisation.

A new information minister, Mrs Radmila Milentijevic, was also appointed - control of the media is expected to be the next battleground between Mr Milosevic and the opposition ahead of parliamentary and presidential elections due before the end of the year.

Mrs Vesna Pasic, head of the opposition Civic Alliance, said Zajedno would call off its daily protests only after the law came into effect and city councils were in their hands; this process could take over a week. Zajedno would still hold demonstrations to press its other demands, including an end to censorship over state media, Mrs Pasic said.

Political sources said Mr Milosevic, Serbia's strongman for nearly 10 years, had been weakened over the past three months. "Mr Milosevic is losing his supporters," said Mr Marko Nicovic, a senior official in the Yugoslav United Left (YUL), part of the ruling coalition. Mr Nicovic said he expected a faction in the centre of the Socialist party to break away and said he intended to quit YUL.

But attempts to privatise parts of the extensive rail network have not been successful. Officials at the transport ministry and Czech Railways say they have watched the UK's experiment in railway privatisation with interest but such a solution would be politically unacceptable.

Whatever its future ownership, observers agree that the cost of restructuring Czech Railways, the country's biggest employer with 101,000 workers, will be

## Boost for Spain's Emu target hopes

By David White in Madrid

Spain's hopes of meeting the two most crucial qualification targets for the European single currency were boosted yesterday by a report from independent forecasters.

However, its predictions leave Spain close to the borderline on both counts. Inflation is expected to fall just within the target range, and the public-sector deficit to end the year fractionally above the 3 per cent of gross domestic product set as the objective for the euro's launch in 1999.

In their half-yearly report, the group of seven experts forecast that inflation, measured year-on-year, would fall to 2.6 per cent in December compared with 3.2 per cent at the end of 1996. Average inflation should come down to 2.7 per cent, they said, compared with 3.6 per cent last year.

This would be narrowly within the 2.8 per cent rate which they reckoned would be the qualifying limit - a 1.5 point margin over the average of the EU's best three performers. But they warned that Spain could

miss the target if there were strong upward pressure on wages.

The forecast that the public-sector deficit would fall to 3.1 per cent of GDP, describing this figure as "a de facto fulfilment of the convergence criteria".

The centre-right government claims it succeeded in keeping last year's deficit as planned to 4.4 per cent of GDP, compared with a revised figure of 6.6 per cent for 1996. This was in spite of an estimated Pta140bn (\$990m) overrun in last year's social security deficit,

offset by a lower than expected shortfall in the central government budget.

The panel said the budget performance was significantly helped by falling interest rates, which produced savings equivalent to 0.6 per cent of GDP.

The government is counting on a lenient application of monetary union conditions for public debt. Spain's debt stood at 69.3 per cent of GDP at the end of last year, compared with a planned level of 67.5 per cent and well above the Emu target of 60 per cent, but is expected

to show a downward trend this year.

The panel of forecasters saw economic growth rising to 2.9 per cent this year, based on strong investment and a long-awaited recovery in private consumption. Their 1996 growth estimate of 2.2 per cent, slightly below government expectations, was in line with provisional figures published yesterday by the Bank of Spain in a quarterly economic report.

The bank said growth was reckoned to have picked up in the last quarter to a year-on-year rate of 2.5 per cent.



Coaches outside Prague's Hlavni Station bear witness to a growing preference for alternatives to rail travel

Gregory Wilson

## Czech rail peace merely papers over the cracks

Job and track cuts are still unresolved, writes Vincent Boland

The compromise that ended a damaging Czech rail strike at the weekend has papered over the cracks increasingly evident in the social consensus that marked the country's economic transition.

But the central issue of the dispute - job cuts and line closures in return for fresh investment and a plan for the future - has not been resolved. It is likely that the threat of disruption will continue, putting a continuing strain on that consensus.

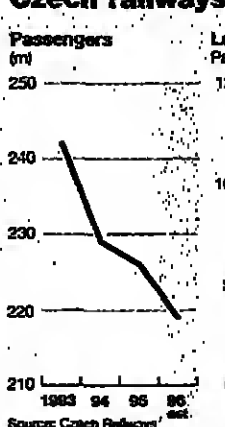
One feature of the Czech transition to a market economy has been the low level of industrial unrest, but that is partly because restructuring of state-run monopolies has not been addressed.

Some utilities such as water, heating and energy have been broken up and partly privatised, and restructuring is being carried out with varying degrees of success under market pressures. Early job losses in these areas were absorbed partly in the service sector.

But attempts to privatise parts of the extensive rail network have not been successful. Officials at the transport ministry and Czech Railways say they have watched the UK's experiment in railway privatisation with interest but such a solution would be politically unacceptable.

Whatever its future ownership, observers agree that the cost of restructuring Czech Railways, the country's biggest employer with 101,000 workers, will be

## Czech railways



Source: Czech Railways

higher than reshaping other public services such as education and health, where sporadic industrial action is also taking place.

The strike has focused attention on the poor financial state of Czech Railways. Passenger numbers fell from 242m in 1993 to 219m last year as more people travelled by car, pushing losses up from Kc7.1bn (\$354.4m) to an estimated Kc11.5bn before subsidies, which were cut from Kc3bn to Kc2bn. Meanwhile, the state of the tracks and tracks has been deteriorating, workers claim safety is being compromised. One striker returning to work at the weekend claimed that spare parts to repair busy routes have to be taken from under-used tracks, such as the lack of investment in the network.

The company's freight operations were profitable in 1995 after some years of losses, though hopes of stay-

ing in the black this year may have been dashed by the strike. Czech Railways might be forced to compensate customers - especially the mining, steel and chemical industries - that rely on rail transport, for losses incurred during the stoppage.

The future of the rail network was given a thorough airing during the strike, though the gap between the government and management on one side and the unions on the other remained wide, despite the public handshakes that accompanied the ending of the dispute. What clinched the settlement was a pledge that officials would develop a long-term "concept of transportation policy".

"We were told it would be prepared as soon as the transformation of the economy was completed," said Mr Jiri Kratochvil, deputy head of the rail union. But, he added, while the economy

had started to recover, no moves had been made to create a new policy despite promises made over the past three years.

But it appears clear that, whatever the shape of the new policy, jobs will have to be cut and lines have to be closed, against opposition from the rail union, which is probably the most militant union in the country.

Even some union members agree the network is overstuffed. The strike was sparked in part by management proposals to address this with the possible axing of up to 40,000 jobs over three years, adding more than one-fifth to the present national unemployment total.

Union leaders say thousands of jobs have been lost in the past few years, mainly through retirement and other voluntary means. They say further cuts would damage services.

In an attempt to boost revenues, Czech Railways has asked the finance ministry to approve a 40 per cent rise in fares this year. This could go some way to easing its financial problems, but could also deter passengers.

Though fewer Czechs are choosing to travel by train, they are proud of their railway network, believing it to be on a par with Switzerland, though without the spectacular scenery.

However, as the events of the past few days have illustrated, neither the Czech traveller nor the Czech traveller can really afford a Swiss-style rail system.

## Ukraine tries to sell debt to German banks

By Matthew Kaminski in Kiev

Ukraine is trying to sell several German commercial banks its rescheduled debt, mostly for Russian and Turkmen energy deliveries, that comes due at the end of March.

The sale would alleviate pressure on Ukraine's foreign currency reserves, which would otherwise be used to cover the first portion of the \$1.4bn debt plus interest payments due this year.

The country's central bank wants to protect its reserve position as Kiev must for the time being make do without an International Monetary Fund programme or other fresh western credits. Slower than anticipated progress of the 1997 budget and a related legislative reform package through parliament has held up agreement on a new \$2.6bn IMF loan.

Ukrainian leaders say the budget, which would free the western aid the country needs to meet its financial obligations without printing money, is unlikely to be passed before the end of March. Mr Viktor Yushchenko, central bank governor, said yesterday the government has discussed the debt sale - which would involve up to \$300m - with Deutsche Bank and others he would not name.

The attraction for the German banks, which play an active role in the former USSR, would be buying state-to-state debt at a discount, giving them further exposure to the competitive Ukrainian market.

Continuing economic stability in Ukraine has attracted considerable western capital, which accounts for roughly a quarter of the outstanding debt of 2.1bn hryvnia (\$1.1bn) sold on the treasury bill market. Total external debt is around \$2bn. Investors are also eager for the \$1.4bn in bonds issued in 1995 to cover outstanding debts to Gazprom, the Russian gas conglomerate. These bonds are not yet available on the secondary market.

An IMF official welcomed the moves to diversify the debt portfolio by bringing in private banks, whose involvement reflects recent confidence in the Kiev government's economic policy.

Mr Yushchenko, who was reconfirmed for a second four-year term in office last week, said his inflation target for 1997 was 35 per cent, compared with 25 per cent last year. But analysts say the absence of an IMF programme could soon test the central bank's low inflation and stable hryvnia policies. The bank has already intervened heavily on the currency exchange market, dipping into 3bn hryvnia in foreign reserves.

## EUROPEAN NEWS DIGEST

## Setback for Slovak PM

The Slovak government of Prime Minister Vladimir Meciar suffered a rare and potentially destabilising setback yesterday when parliament failed to pass a law that critics said would have imposed severe restrictions on freedom of speech and opposition political activities.

The law was a watered-down version of an earlier measure on "protection of the republic" that President Michal Kovac refused to sign into law and returned for amendment. The measure garnered 69 votes, but 72 votes were needed for it to be passed.

Three MPs who abstained are members of the Workers party, a junior partner in Mr Meciar's nationalist-populist coalition. The move, reflected growing tensions within the coalition over economic and privatisation policy rather than ideological objections. The measure, a brainchild of the Slovak National party, a far-right coalition member, has been heavily criticised by civil rights groups, church leaders and western governments. Vincent Boland, Prague

## Rise in EU cross-border deals

The number and value of cross-border deals within the European Union rose to record levels in 1996, the specialist publication Mergers and Acquisitions Monthly said yesterday in its annual review. "The EU Mergers and acquisitions market is likely to see the prevailing high levels of activity continuing not only in 1997, but in the years beyond that," the report said.

US companies were the most voracious buyers last year, when a total of 1,994 deals touched a total value of \$64.8bn (\$105.62bn). In 1995, there were 1,901 European takeovers, worth \$56bn.

North American companies snapped up 460 European outfits with a combined value of \$15.7bn last year. Swiss companies came in second place in terms of the value of their cross-border acquisitions and they invested \$7.6bn in EU companies, the specialist publication said.

But in terms of the number of cross-border acquisitions, British companies were the second most active group behind their US counterparts. British companies purchased a total of 229 EU companies with a combined value of \$5.1bn. British companies were by far the most sought after commercial property. Overseas companies purchased 391 British companies with a value of \$23.4bn in 1996. AFP, London

## Michelin faces EU inquiry

The European Commission is examining the sales practices of Michelin, the French tyre group, because of suspicions that it is abusing its dominant position in France and some other EU countries to impose unfair conditions on its dealers.

A Commission official said the probe centred on Michelin's rebate system for tyre distributors. In the early 1990s Michelin was found guilty of applying a rebate system for dealers in the Netherlands over such long periods that the dealers were hindered from selling products from other tyre manufacturers. "We are looking to see whether similar practices are taking place today," said a Commission official. Emma Tucker, Brussels

## Albanian emergency urged

The Albanian government yesterday asked parliament to impose a state of emergency in the southern Albanian town of Vlore, where three people have died in a week of anti-government rioting.

Violence flared again yesterday as 30,000 people attended the funeral of a man killed on Monday in the worst unrest to affect Albania in the wave of protests sparked by the collapse of get-rich-quick pyramid investment schemes. An angry crowd set fire to the local headquarters of the ruling Democratic Party in a working-class district of Vlore.

"The situation in Vlore is extraordinary. It calls for extraordinary measures," Prime Minister Alexander Meksi said on national radio.

Many people accuse the government of collusion with those who ran the fraudulent funds or of failing to act in time to control the schemes. The government has denied the allegation and accused the opposition of fanning unrest. AFP, Vlore

## Further killing blamed on Eta

A businessman was shot dead during a street carnival in the Basque town of Tolosa yesterday, the third killing blamed by the government on Eta separatists in two days. This week's murders in different parts of the country present the biggest terrorist challenge to Spain's centre-right government since it took office nine months ago. Basque terrorism has now claimed five deaths since the beginning of the year, as many as in the whole of 1996.

Mr Jaime Mayor Oreja, the interior minister, said that the resurgence of attacks would not alter the government's policy, reaffirming its stance against opening talks with Eta. "They will obtain nothing, never," he said. David White, Madrid

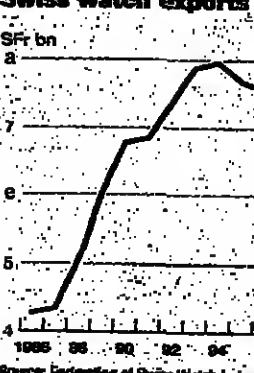
## German wholesale sales fall

German wholesale sales in December fell a real 3 per cent and were a nominal 2 per cent lower than a year earlier, according to the Federal Statistics Office in 1996, wholesale sales were a real 1 per cent and a nominal 2 per cent lower than in the previous year. In the consumer and durable goods industry, December wholesale sales were 6 per cent lower than a year earlier in both real and nominal terms. AFP, Wiesbaden

## ECONOMIC WATCH

## Swiss watch downturn ends

## Swiss watch exports



The two-year downturn in the watch industry of Switzerland, the world's biggest producer of clocks and watches, appears to have ended. Exports by watchmakers, which had fallen by 4.7 per cent in the first half of 1996, rose by 6 per cent in the final quarter of the year, according to figures from the Federation of the Swiss Watch Industry. As a result, exports for the full year fell by only 1.6 per cent to SF7.55bn (\$5.24bn) compared with a 3.6 per cent decline in 1995. The recent decline in the value of the Swiss Franc has helped turn round the fortunes of a traditional industry which in the early 1980s seemed on the verge of extinction. Exports to Hong Kong, the biggest market for Swiss watches and watch parts, fell for the second year running, but this was offset by continuing strong exports to the US, the second biggest market, and Japan, where exports rose by 12 per cent, to SF7.62bn.

Mr Friedrich Hasslauer, of Bank Sal Oppenheim in Zurich, said the figures underlined the shift away from expensive gold watches, where exports fell by 5.3 per cent to SF1.99bn, and towards steel watches, where exports rose by 24.5 per cent in value, and common metal watches (up 26.2 per cent). William Hall, Zurich

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## TV football loss angers 5m Italians

By Robert Graham in Rome and Neil Buckley in Brussels

Pre-match fever turned to political polemic in Italy yesterday after 5m Italians realised they would be denied the right to see their national football team take on England live in tonight's World Cup qualifying game at Wembley.

Television and radio rights in Italy for the match were awarded last December to Mr Vittorio Cecchi Gori's Telemontecarlo (TMC) - but his two channels cover less than 80 per cent of the national territory.

The Italian consumers association has attacked TMC for depriving viewers of their national right to watch the *Azzurri*, as the national squad is known, and Mr Walter Veltroni, the deputy premier and sports minister, was obliged to try to broker a deal yesterday with Mr Cecchi Gori and Mr Enzo Siciliano, the head of Rai, the state broadcaster.

The Italian row comes amid heated debate in Europe over the role of public service television and the market place in hiding for sports rights.

The Spanish government is planning draft legislation which would prevent companies running "pay-per-view" television services from obtaining exclusive rights to broadcast football matches.

The European Union is

also attempting to put in place an EU-wide legal framework to prevent major sporting events becoming the exclusive preserve of pay-TV channels.

England fans' live view of the game against Italy is also restricted.

The match is being covered live on BSkyB's Sports Channel, to which only 4m households subscribe, although many more supporters will watch the game on big screens in crowded pubs.

Mr Cecchi Gori easily outbid Rai and Mr Silvio Berlusconi's three Mediaset channels for the television and radio rights for the match last December.

Most of the unfortunate fans unable to receive TMC are in the southern region of Calabria and the islands of Sardinia and Sicily.

Yesterday hectic discussions were taking place to find some sort of compromise. These ranged from trying to find the technical means to let Rai transmit to those areas of Italy not covered by TMC, to a deferred showing by Rai.

The blame for the mess rests between parliament and Rai. Parliament has been unable to agree on legislation to ensure that TMC enjoys nationwide coverage. At the same time, since losing out in its bid to continue covering Italian league soccer, Rai has been too proud to deal with Mr Cecchi Gori.

Battle for survival shifts to economy as President Maskhadov prepares to take office

## Chechnya wages war on wasteland

In one of the few large auditoriums in the capital to have survived two years of pummeling by the Russian army, Mr Aslan Maskhadov, former chief of staff of the Chechen separatist forces, will today be formally inaugurated as president of the breakaway Chechen republic.

As the agonising conflict between Russia and Chechnya has shifted from war to diplomacy, the inauguration has become the newest weapon in Chechnya's drive to win full independence. But international recognition of an independent Chechnya is a development the Kremlin, humiliated by its military defeat at the hands of Chechen guerrillas, is determined to thwart, so far with success.

No official foreign government delegations are expected to attend Mr Maskhadov's inauguration, although some of the Kremlin's most troublesome *bêtes noires*, including Mr Alexander Lebed, will be there.

The failure to attract official foreign visitors is likely to be a disappointment for the Chechens but, in their effort to build an independent state, the biggest sticking point is likely to be the economy, not diplomacy.

The two-year war with Russia has transformed Chechnya into the sort of post-industrial wasteland normally encountered only in science fiction movies. The relics of a modern, twentieth century society are there: high-rise apartment buildings with plumbing, electricity, television sets and video recorders; a public transport



Aslan Maskhadov (above) - inaugurated as Chechen president today, but no foreigners are likely to be there

system; road-side petrol stations. But most of these modern urban comforts have collapsed, leaving Chechens living a lifestyle of a previous era, in the wreckage of the modern one.

Thousands of residents of Dzhokhar-Ghala, the capital formerly called Grozny, still live in high-rise apartments, but collect unpurified water from open pipes at the side of the road. People drive cars but, apart from a few traffic lights, the streets are dark and the only consistent

source of fuel is private road-side vendors, who sell huge glass jars of lime-coloured petrol produced in home-made refineries in their backyards.

Even the crippled remains of Chechnya's old, industrial infrastructure are suspended in this economic limbo. Mr Baudin Khamidov is the manager of Dzhokhar-Ghala three oil refineries. Last year, they refined only 120,000 tonnes of crude oil, less than 10 per cent of their Soviet era capacity.

They operate in a deformed environment which is a sad parody of Marx's dream of a cashless economy. "We live today only because we pay for nothing - we do not pay for crude, we do not pay for electricity, we do not pay our taxes, we do not pay our workers," Mr Khamidov mournfully explains.

In turn, the refineries are not paid by their customers. Worse yet, the refineries, and the pipelines leading to

them, are the chief source of the crude oil refined in the backyards of the roadside entrepreneurs. "Having stolen the oil from us, they can sell petrol and diesel more cheaply than we can," Mr Khamidov says.

Some of Chechnya's more starry-eyed statesmen hope this frail oil industry, which in the 19th century attracted British entrepreneurs whose Victorian homes form one of Dzhokhar-Ghala's most elegant suburbs, will be the basis of the region's economic resurrection.

The most ambitious scheme, hatched with advice from Mr Adnan Khashoggi, the Saudi Arabian financier, and Mr Jacques Attali, former president of the European Bank for Reconstruction and Development, is a \$3bn project to build a pipeline from the Caspian Sea region and central Asia to Black Sea and Mediterranean ports - all, of course, via Chechnya.

It is hard to see such a grandiose project coming off. A more modest, but more plausible, source of economic renewal seems to be the unquenchable entrepreneurial zeal of individual Chechens.

Even in the rubble of Dzhokhar-Ghala, Chechens have set up thousands of small businesses, from one-room tea shops, to stands selling fresh caviar in the bazaar and "Chechen Aerospace Kommunikation", two brightly lit shops offering satellite telephone connections. Internet links and computer services 24 hours a day. It was businesses like these, and the lack of import barriers, which succoured Chechnya before the war with Moscow, when the region prospered as a *de facto* duty-free import-export zone on Russia's southern flank.

As he assumes the presidency today, Mr Maskhadov will have to hope that this energy will enable Chechens to create a grassroots economy of their own and help them rebuild their country without Russian help.

Christina Freeland

## Talks start on reform of Italian state

By Robert Graham

Long-delayed discussions on overhauling the creaking institutions of the Italian state got under way yesterday amid hopes that the national interest would be placed above party politics.

Discussions will focus on such issues as strengthening the powers of the prime minister and his direct election; making the two houses perform separate functions to end the current time-wasting bi-cameralism; and the relationship of the judiciary to the legislature.

The first session of the special 70-strong parliamentary commission was inaugurated by the chairman, Mr Massimo D'Alema, leader of the Party of the Democratic Left (PDS).

Mr D'Alema, whose party is the dominant partner in the centre-left government, has staked his credibility on pushing through reforms to modernise the state and make government work better in the interests of ordinary citizens.

Reform of the 1948 constitution has been talked about for more than a decade; however, all such efforts have foundered on a mixture of political inertia and in-fighting aimed at protecting vested interests.

Parliament agreed last July to press ahead with a commission to draw up proposals, but it has taken six months of hard bargaining to get things started.

Mr D'Alema observed pointedly yesterday: "In our country there is a strange sentiment whereby everyone wants reforms, but any deal is viewed with suspicion. I

on the other hand, believe in agreements and that they can be reached in a transparent way without ulterior motives".

In the past two weeks, Mr Silvio Berlusconi, leader of the right-wing opposition, has dropped his reservations about the commission. This has led him to endorse Mr D'Alema's chairmanship and the two leaders have established an informal understanding allowing them to work towards a common goal of reform.

The understanding between the two has caused considerable friction with Mr Berlusconi's main ally, Mr Gianfranco Fini, head of the right-wing National Alliance (AN). AN showed its wariness of the commission's brief by refusing to vote for Mr D'Alema.

Equally, some politicians in the ruling centre-left alliance have voiced concern over the implications of a cross-party deal between Mr D'Alema and Mr Berlusconi.

The hardline marxists in the Reconstructed Communism (RC) party have threatened to undermine the commission if Mr D'Alema gets too close to Mr Berlusconi. Underlying these concerns is a fear that cross-party co-operation on constitutional reform could lead to the emergence of a different government majority and a consequent change in the premiership.

The commission must conclude its work by the end of June. Mr D'Alema said yesterday the first months would be taken up purely with discussions. Agreements on individual proposals would only be sought in May and June.

## Treasury urged to buy Bank of Italy

By Robert Graham

The Italian Treasury was yesterday urged to transform the ownership of the country's central bank by buying out the banks and savings institutions which own 84.5 per cent of it.

The prestigious Istituto Ugo La Malfa in a report on the country's banking system said that this would also help reinforce the weak asset base of the country's publicly owned banks at a time when privatisation was an increasingly central issue.

Yesterday's study estimated the national value of the banking institutions' combined stake in the central bank at L38,212bn (€23.3bn), based on the Bank of Italy's 1995 balance sheet with nominal capital of L300m, reserves of L9,178bn and L35,503bn in funds to back gold reserves.

The biggest shareholder is Cariplo with 10.35 per cent; savings banks account for 56.24 per cent; and commercial and merchant banks own 28.26 per cent. The remainder is owned by insurance companies and Inps, the state pensions institute.

In most cases the shares are written down as assets with a nominal value. But based on the central bank's 1995 balance sheet, the report showed, Cariplo's stake would be worth L8,750bn, close to the value of its current net assets of L10,453bn. The troubled Banco di Napoli's share would be worth L2,862bn.

The study recognised it would be difficult to establish a realistic price tag on these shareholdings since the circumstances were unique.

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### OBITUARIES

The President of the Court of Justice of the European Communities,  
The President of the Court of First Instance of the European Communities,  
The Members and the Staff of the Court of Justice and of the Court of First Instance

deeply regret to announce the death  
on  
6 February 1997 in Bonn (Germany)

of

**Mr Heinrich KIRSCHNER**

Judge at the Court of First Instance



## NEWS: INTERNATIONAL

# Fraudsters exploiting poor nations

By Clay Harris

Developing nations are being targeted by tricksters who want to use their sovereign status to cheat investors, according to a leading international monitor of commercial frauds.

Mozambique is the latest country to be approached by promoters of a non-existent Sovereign National Infrastructure Private Sector (SNIPS) facility programme, the International Chamber of Commerce's UK-based Com-

mercial Crime Bureau said. The CCB says SNIPS "promises much and delivers little" and poses the threat of bankruptcy to nations which issue guarantees under the programme. Several Pacific island nations have already fallen prey to the scheme.

SNIPS and the similar "prime bank instrument" frauds are estimated to steal \$10m a day, says the CCB.

The countries are told that sums of \$500m or more will be available to fund infra-

structure projects, develop small businesses or repay long-term capital debt.

The scheme involves the nation nominating banks to issue guarantees on its behalf - which promoters say will never be cashed - and pay a one-time fee of \$50,000 to the finance provider. The promoter tells the nation the guarantee will be used as collateral to gain access to loan facilities.

Although the nation is told the guarantee carries no risk or exposure, the guaran-

tees are sold to unwary investors at deep discounts with the apparent status of sovereign debt. Promoters sometimes get themselves appointed honorary consuls to enhance their image as government representatives.

The CCB notes that guarantees issued on behalf of Vanuatu represented five times its annual overseas earnings. The Cook Islands and Marshall Islands had succeeded in revoking guarantees worth \$1bn and \$100m respectively, while

Nauru was forced to settle in its attempt to recover \$60m.

In most cases, the CCB says, the language is so muddled and incorrect that the guarantees are unlikely to have any legal standing; it describes them as "worthless paper." It is not clear, however, that every court would take this view.

Moreover, since the guarantees are typically signed by the head of state, a country's financial reputation and standing could be tarnished even if it

escaped paying out.

Although the latest approach, direct to the Mozambican president, came from a South African company, the CCB says "in many cases the bankers and facility managers are the same - one in the US and the other with offices in the UK." The language in documents was similar in all cases, the CCB said. No indication is given as to the identities of individuals and trust funds supposedly financing the programme.

Inflation threat dashes hopes of early cut in interest rates

## Stals warns on rand's appreciation

By Roger Matthews in Cape Town

The sharp rise in the value of the rand this year reflected "the quite dramatic change" in South Africa's underlying economic position, Mr Chris Stals, governor of the country's reserve bank, said yesterday.

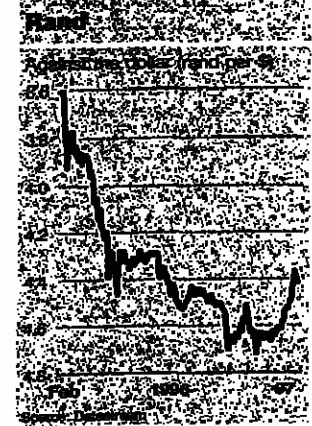
But he warned that the rand's appreciation could be excessive, and that the continuing threat of inflation offered little prospect of an early cut in interest rates.

"There is a lot of optimism that 1997 will provide a return to overall financial stability for the South African economy," he said. However, this would be against a background of a growth rate likely to be lower than last year's estimated 3 per cent, and further job losses.

The most important turnaround had been in the current account of the balance of payments, said Mr Stals.

"On a seasonally adjusted annualised basis, the deficit peaked at about R15bn (\$4.4bn) in the second quarter of last year, before declining to R8.5bn in the third quarter, and less than R5bn in the fourth quarter."

The R15bn rise in the gold and foreign currency reserves to R117.6bn during January confirmed how dramatically the situation had changed. "The quite spectacular appreciation of the rand this year, which began to be seen in October, could however be excessive, just as its decline last year was an over-reaction," he said. "But it is the markets which will dictate its level." The rand, which has appreciated by nearly 9 per cent against a basket of currencies since November, eased against the US dollar following Mr Stals' remarks, to close in Johannesburg at R4.44, a fall of R0.03 on the day.



Mr Stals also stressed that the fight against inflation had to be maintained despite last year's 7.4 per cent increase in consumer prices being the lowest since 1972.

During the final quarter of last year the annualised rate had accelerated again to 11.6 per cent, and the full impact of the rand's earlier depreciation had still not been felt, he said.

With the increase in money supply continuing at the unacceptably high level of 14 per cent last year, there was little scope for any relaxation of monetary policy.

Mr Stals wanted to see more evidence of a reduction in bank credit and money supply before considering a cut in interest rates. "It will be later, rather than sooner," he said.

The governor repeated that the bank would move "with caution and discretion" in the advice it gives to the government on the gradual removal of exchange controls.

He complained at the "numerous and unreasonable attacks" made on the bank for not acting more decisively, but said he would not be deflected from a policy "which had never changed".

## Mauritius looks for its place in the sun

The island must reinvent itself to survive the passing of protectionism. Michela Wrong reports

How appropriate that Mauritius should have chosen the dodo as its national symbol. A sitting target, the flightless bird was exterminated by Dutch settlers on the Indian Ocean islands in the 17th century. The lesson was clear: adapt or die. It is one Mauritius has taken to heart.

With no natural resources to boast of, apart from its azure beaches, it has nonetheless turned itself into an economic success story by cannily spotting a series of market niches and swiftly evolving to exploit them.

The question for its 1.1m citizens now is: can Mauritius continue to perform the same miracle of reinvention, or has more than a decade of prosperity dulled its competitive instinct?

For the niches on which Mauritius has built average per capita incomes of \$3,400 - equal to the highest on mainland Africa - may be about to disappear. Most were based on market protectionism but that is no longer fashionable.

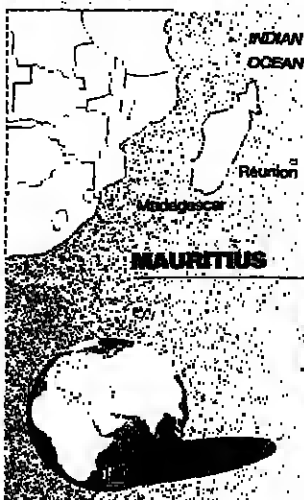
The Lomé convention, which gave Mauritius preferential access to European markets, propped up its sugar industry.

An unexploited textile import quota with the US drew Indian and Chinese companies which had saturated their own national quotas to Mauritius's export-processing zone (EPZ). Local companies, tapping a well educated workforce, soon joined the race to supply the west with high-quality clothing.

It was only in tourism that Mauritius competed openly with the world.

Lomé is due to be renegotiated in 2000 and its tenets now jar with the free trade philosophy of the World Trade Organisation. Other African

### Mauritius: learning from the Dodo



The lesson of the Dodo, the Mauritius national symbol, is clear: adapt or die. It is a lesson the island has taken to heart.



nations, with cheaper labour costs, are vying for Mauritius's textile contracts.

At the same time, the tourism industry is approaching saturation point, with local operators admitting the islands may not be able to welcome many more than last year's record 487,000 visitors without suffering serious environmental damage.

"We are trying to identify what is going to be the next strategic resource we can build on," says Mr Mitrajee Marayee, central bank governor. "We have to find our place in the sun."

For some, part of the answer lies on a hill overlooking the capital, Port Louis. It is there that Mauritius's Export and Development Authority (Media) has built Informatics Park, a hangar where foreign companies specialising in

information technology benefit from state-of-the-art telecommunications and tax incentives.

D&H Computer Services, a British software company, was one of those lured by the prospect of high skills for relatively low wages. "The skills we need are very expensive in the UK. Here salaries are four or five times cheaper, so we can get new products to market four or five times faster," says Mr John Douglas, its director.

About 80 per cent of the building is already occupied and Media is thinking of putting up a second. Mr Chand Bhandal, Media's head, does not expect the venture to replace an EPZ that employs 80,000 people. But he believes that, along with the creation of a freeport, expansion of offshore banking, manufacturing diversification and the modernisation of the textile and sugar

industries, it will form part of the transformation of Mauritius into a busy hub linking Asia to Africa.

Optimists believe that having established a solid international reputation for excellence, Mauritius can remain ahead of the pack even when protectionism evaporates. It should now model itself on Singapore, they argue, rather than trying to match rock bottom wages offered by African rivals.

But pessimists warn that annual growth rates of over 6 per cent have bred exaggerated expectations. A population used to near-full employment, free education, health care and subsidised foods could be in for a rude awakening.

Businessmen know that if Mauritius is to thrive in the long term some tough decisions must be made: scaling back a welfare state reminiscent of pre-Thatcherite

Britain, slashing a bloated civil service, abandoning a collective wage bargaining system that rewards inefficiency.

The unease has expressed itself in a vigorous debate over the strength of the rupee. Traditionally allowed to depreciate gently against the dollar, the island's currency last year experienced some dramatic falls, a measure of the anxiety over the economy.

"The current situation is untenable," said a stockbroker. "We can maintain the momentum for three to five years, but then we need to restructure the economy. That takes tremendous political courage."

But there are few signs of the required political leadership. Thirteen months after wresting control from Sir Anerood Jugnauth, Mauritius' veteran leader, Dr Navin Ramgoolam's government stands accused of incompetence.

It got off to a poor start last year with a finance minister who alienated the business community and drafted a hugely unpopular budget. While the new finance minister and budget have been welcomed, the prospect looms that Mr Paul Berenger, the deputy prime minister, may quit the coalition and take his party into the opposition. As political tensions simmer, private entrepreneurs, their order books full but fretting over the future, chafe at the lost opportunities of a wasted year.

"With good planning, we could see per capita incomes going up to \$10,000 (\$25,000) by the year 2005," says one executive. "But we need decent management, politicians who know what they are doing. At the moment that's missing."

## NEWS: WORLD TRADE

## GE pulls out of talks on new Airbus engines

By Michael Skapinker, Aerospace Correspondent

General Electric of the US said yesterday it had pulled out of negotiations to build engines for a 375-seat aircraft planned by Airbus Industrie, the European manufacturing consortium, because of differences over the sharing of development costs.

GE's two large international rivals, Rolls-Royce of the UK and Pratt & Whitney of the US, said they were ready to talk to Airbus about providing engines for the aircraft, which is designed to compete with the Boeing 777 and the smaller version of the Boeing 747.

The decision by GE and Airbus to end negotiations comes amid intense discussions by aircraft and engine manufacturers over what large jets airlines are likely to need in the 21st century. Boeing last month scrapped plans to build a 550-passenger version of its 400-seat 747, saying there was insuffi-

cient demand for the aircraft.

Airbus - owned by Aerospatiale of France, Daimler-Benz Aerospace of Germany, British Aerospace and Casa of Spain - is pushing ahead with plans to build two new aircraft. One is the A3XX, a 550-seater. It also plans to build the A340-600, which would stretch its existing A340 model from 300 seats to 375. Airbus says the aircraft should enter service in 2001.

All three large engine makers are bidding to work on the A3XX. GE and Pratt & Whitney have joined forces to develop engines for the 550-seater. Rolls-Royce is offering variations on its existing engines.

Airbus decided last year, however, to talk exclusively to GE about engines for the A340-600. The existing version of the A340 is powered only by CFM engines, manufactured by a joint venture between GE and Snecma of France.

Airbus and GE said they had agreed technical speci-

cations for the A340-600 engine. But they had failed to agree a financial package which would have allowed them to work together.

Analysts estimate Airbus would be able to develop the aircraft for about \$2bn. This is relatively low for a new aircraft development, because the A340-600 would be based on an existing model. GE would, however, have had to develop a wholly new engine, at an estimated cost of \$1bn.

Rolls-Royce said yesterday that it was interested in talking to Airbus and would be able to base an engine for the aircraft on its existing technology. Pratt & Whitney said it would have to talk to Airbus to determine what type of engine was required. But the US company said: "We are very interested in pursuing it."

Airbus said it had not yet decided whether to talk to another engine maker on an exclusive basis or enter detailed discussions with both large manufacturers.

## Aircraft maker in Korean talks

By Michael Skapinker

Europe's leading regional aircraft maker said yesterday it was talking to four South Korean companies about working together on a new 70-seat jet.

Aero International Regional (AIR) - owned by Aerospatiale of France, British Aerospace and Alenia of Italy - said it was talking to Samsung, Daewoo, Korean Air and Hyundai about the aircraft. If agreement is reached, the four Korean companies would contribute to the cost of the aircraft and build some components.

South Korean companies have been searching for several years for a way into the regional jet market. Korea was excluded last year from a consortium, led by China, which plans to build a 100-seat jet. Aviation Industries of China (AVIC) and Singapore Technologies have agreed with AIR to build a 100-seater.

Samsung then turned its attention to Fokker, the Dutch aircraft maker which went bankrupt last year. Earlier this year, however, Samsung said it was no longer interested in buying Fokker. The Korean company is believed to have decided the problems facing Fokker would be too expensive to overcome.

Air says it wants to see the new 70-seater enter service early in the next century. It has short-listed two possible engine manufacturers: General Electric of the US and a joint venture between Pratt & Whitney of the US and Snecma of France. Air says it hopes to sell 600 of the aircraft and is already having discussions with airlines.

The four Korean companies are also interested in participating in the development of large aircraft. They have had discussions with Airbus Industrie, the European consortium, about participating in the development of the A3XX, a planned 350-seat jet.

## What do you mean by free trade, Mexico asks Apec

By Guy de Jonquieres and Stephen Fidler

The Asia Pacific Economic Co-operation forum needs to clarify this year its plans for free trade if it is to continue to develop, Dr Hermilio Blanco, trade and industry minister of Mexico, an Apec member, said yesterday.

He said the issue should be discussed before leaders of Apec's 18 members - which account for about half of world economic output and trade - meet in Vancouver in November.

The talks could be difficult, he said. "If you want to have a very destructive meeting you say: 'What do you mean by free trade?' That is seen as a spoiler. It will create lots of fights. Free trade for lots of countries has a very different meaning," he said.

Australia and New Zealand wanted Apec to develop into a free trade area, but other members, such as Malaysia and Japan, thought differently. It was also unclear whether Apec's free trade



Hermilio Blanco: free trade for lots of countries has a very different meaning

plans required China to embrace World Trade Organisation rules, and how quickly, he said.

Apec is committed to freeing all trade and investment in the Pacific Rim region by 2010 in industrialised countries and by 2020 in developing ones. However, many questions remain unanswered, including whether all tariffs would be abolished by those dates and how far

liberalisation would be extended to non-members.

Turning to trade agreements in the Americas, Dr Blanco said it was important for US President Bill Clinton to show progress in securing "fast track" trade negotiating authority from Congress before he attended a summit of north and south American leaders in Brazil in May.

Such authority needed to cover Chile's accession to the North American Free Trade Agreement.

But a US mandate to push ahead with plans to create by 2005 a Free Trade Area of the Americas (FTAA) was less urgent, because no negotiations were likely this year.

Dr Blanco rejected suggestions by some other governments that an FTAA, embracing the whole of the Americas, could be achieved through negotiations between Nafta and Mercosur, the four-nation South American trade grouping.

He said such an approach would be "an insult" to countries which were mem-

bers of neither group. Mercosur - a customs union with eventual pretensions to political union - was a different body to Nafta, which was strictly a free trade area.

The only practical approach was for all countries to agree on the disciplines for a hemispheric accord which would have to go beyond the World Trade Organisation rules - and then to agree on the terms of access.

Dr Blanco said work was continuing on extending Mexico's network of free trade agreements with other Latin American countries. Five were already in place - with Chile, Colombia, Venezuela, Costa Rica and Bolivia.

Two others were very advanced: one with Nicaragua and one with Honduras. Guatemala and El Salvador negotiating together. Other negotiations were under way. "We are in the process of negotiating with everyone on the continent except Mercosur," he said.

## All lines lead to Dublin for Compaq callers

By John Murray Brown in Dublin

The dialling tone will seem familiar, as will the language on the end of the line. But from the end of this year, a call to the local representative of Compaq Computer in Paris or Prague or any of 12 European countries, will be routed to Ireland and answered in the language of the caller.

The deal announced yesterday, in which the world's leading personal computer company is investing \$10m to set up a multilingual pan-European customer support centre in Dublin, is just the latest in a string of investments attracted to remote locations such as Ireland because of advances in telecommunications.

Compaq, whose European operations are headquartered in Munich, with a distribution centre in the Netherlands and a manufacturing base in Scotland, is creating 550 jobs in Ireland over the next three years. 60 per cent of them for people speaking several languages, to provide a 24-hour computer care service in up to 15 different languages.

With little to distinguish the different brands of personal computers on the market, Mr Ian Jackson, director of Compaq's UK consumer and retail business, says companies are recognising the key sales advantages of good after-care service.

Both Dell and Gateway 2000 of the US have already established similar operations, attracted by

Ireland's plentiful low cost labour, with starting salaries for graduates at around £10,000 (\$15,875). Last June, IBM announced plans for 750 jobs to back up its European sales effort.

Ireland accounts for an estimated 30 per cent of the pan-European back office tele-based services companies, employing around 3,500 people. Ireland's Industrial Development Agency estimates the sector will create more than 5,000 jobs by 2000.

In London yesterday Mr Andreas Barth, Compaq's general manager for Europe, Middle East and Africa, said he expected the hardware market in eastern Europe to grow by 28 per cent to \$6bn this year, compared with a 15 per cent growth rate in western Europe.

## Eizenstat warning on Cuba sanctions dispute

By Nancy Durne in Washington

No World Trade Organisation dispute settlement panel is competent to judge US national security and any attempt to do so will only inflame sentiment against the WTO in Congress, Mr Stuart Eizenstat, a senior US trade official, said yesterday.

Mr Eizenstat, US commerce undersecretary for international trade, urged a settlement of a European Union case against US Cuba sanctions because it could "incite those anti-WTO forces in the Congress that have argued, incorrectly, that the WTO is some threat to our sovereignty".

Mr Eizenstat was speaking during a joint appearance with Mr Hugo Paemen, the EU ambassador, at a conference in Washington sponsored by the Centre for International Policy, a liberal research body.

The EU has been vigorously pursuing the case despite the US contention that its sanctions against Cuba, under the Helms-Burton law passed last year, are a political dispute, not a trade case. The Helms-Burton law allows Americans to sue foreign companies that use US property, such as mines and hotels, confiscated after the Cuban revolution in 1959. President Bill Clinton has suspended this provision. In addition executives can be denied visas to the US.

Sir Leon Brittan, the European trade commissioner, has sought to break a procedural deadlock by asking Mr Renato Ruggiero, head of the WTO, to name a dispute settlement panel. The EU says it must defend the rights of its citizens to travel freely.

This is expected to occur on Friday, and it is not yet clear if the US will try further blocking action. WTO officials are concerned that the case will undermine the organisation by challenging its right to judge complaints.

Mr Eizenstat said the US has always indicated that its national interests were at stake with respect to Cuba. A bid for a national security exemption - allowed in some cases by the WTO - would be sought if necessary.

### OECD Export Credit Rates

The Organisation for Economic Co-operation and Development announced new minimum interest rates (%) for officially supported export credits for February 15 to March 14 (January 15 to February 14 in brackets).

D-Mark	5.79 (5.90)
Ecuc	5.41 (5.55)
French franc	5.78 (5.83)
Guilder	
up to 5 years	5.35 (5.40)
5 to 8.5 years	6.10 (6.15)
over 8.5 years	7.00 (7.05)
Italian lira	6.53 (6.70)
Yen	2.30 (2.30)
Peseta	6.81 (7.20)
Sterling	6.23 (6.28)
Swiss franc	4.70 (4.82)
US dollar	
up to 5 years	7.16 (6.91)
5 to 8.5 years	7.33 (7.07)
over 8.5 years	7.47 (7.20)

These rates are published weekly by the Financial Times, normally in the middle of the month.

A premium of 0.25 per cent is to be added to the cash rates when they are used for credit lines not to be used for more than 120 days.



کتابخانه ابن سینا

on threat dashes hopes  
for cut in interest rates

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1. The first step in the process of the investigation is the identification of the problem. This is done by the investigator who is assigned to the case. The investigator must first identify the problem and then determine the scope of the problem. This is done by the investigator who is assigned to the case.

2. The second step in the process of the investigation is the collection of data. This is done by the investigator who is assigned to the case. The investigator must first identify the problem and then determine the scope of the problem. This is done by the investigator who is assigned to the case.

3. The third step in the process of the investigation is the analysis of the data. This is done by the investigator who is assigned to the case. The investigator must first identify the problem and then determine the scope of the problem. This is done by the investigator who is assigned to the case.

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5. The fifth step in the process of the investigation is the presentation of the results. This is done by the investigator who is assigned to the case. The investigator must first identify the problem and then determine the scope of the problem. This is done by the investigator who is assigned to the case.

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Issue of human rights could cloud new dawn in relations

## EU, Asean face testing encounter

By James Kyne  
in Singapore and  
Neil Buckley in Brussels

Foreign ministers from the European Union and Asia will this week engage in a testing diplomatic encounter: to add substance to the vague optimism of a new dawn in relations between the two regions.

But such hopes appear imperilled by disputes over human rights in Burma and East Timor. The increasingly assertive nations of Asia have made clear Europe cannot hope to deepen economic ties with the world's fastest growing region unless it becomes less confrontational on human rights.

That issue could make or break the talks in Singapore tomorrow between the 15 EU countries and the seven members of the Association of South East Asian Nations (Asean), and on Saturday between the EU and Asean, plus China, Japan and South Korea. The weekend meeting will be the first foreign ministers' meeting between the countries which took part in last year's inaugural Asia-Europe summit in Bangkok, at which the optimistic outline of EU-Asean relations was expressed.

Singaporean officials said Asean had informed EU officials that if the Europeans raised the issue of Indonesia's occupation of East Timor, the "whole [EU-Asean] relationship would be seriously affected". Indonesia has won Asean's backing to disrupt the meeting if Portugal, which previously ruled East Timor, raises it.

Even more sensitive for the EU is Burma, expected to join Asean later this year. EU ministers have expressed concern over human rights abuses there, and have suspended Burma's tariff privileges.

The concern in Brussels is that Burma's entry into Asean could strain relations with the whole grouping for as long as Rangoon's military rulers remain in power. One EU diplomat said Burma's accession to Asean, which groups Singapore, Malaysia, Indonesia, Thailand, Brunei, Philippines and Vietnam, could be interpreted in Rangoon as endorsement of its attempts to suppress Ms Aung San Suu Kyi's democracy movement.

EU sources suggest ministers will try to find a diplomatic solution allowing an uncontroversial reference to the political situation in



Snr Kyi: her democracy movement battered

Burma to appear in the meeting's final communiqué. Assuming that is diplomatically possible, talks on boosting trade and promoting investment will top the agenda. Asean officials said trade and investment with Europe had lagged behind its potential. Total Asean-EU trade in 1995 was US\$99.5bn, while Asean-US trade was nearly US\$110bn, according to Singapore's data.

Ms Yeo Lay Hwee of Singapore's Institute of Policy Studies said one measure of the meeting's success would be if agreement were reached on the Asean-EU "Action Plan" to replace the expired EU-Asean agreement of 1980 which sets out the foundation of their co-operation on issues such as trade. This agreement has not been renewed mainly because of a disagreement between Indonesia and Portugal over a human rights clause.

Such an action plan might include steps to scrapping non-tariff barriers, the promotion of investment, co-operation in science and technology, and the setting-up of European Business Information Centres in Asean countries.

The EU desire to forge closer trade links with Asia has been brought into focus by the success of the US in boosting American investment in the region.

As tariff and non-tariff barriers within both Asean and the European Community are dismantled, the two trading blocs are starting to regard each other as increasingly attractive partners.

This week's talks, therefore, could have a real impact. But in the eyes of Ms Yeo, "if there is no 'Action Plan', just a final declaration, the meeting will not have been a success".

## Singapore seen as model for HK

By James Kyne

Mr Lee Kuan Yew, architect of Singapore's sparkling post-colonial success, has offered advice on how Hong Kong should conduct itself after Britain returns the colony to China at midnight on June 30.

In a rare comment, Mr Lee, 73, the former prime minister, who now has title of senior minister in Singapore's cabinet, said that Hong Kong needed a strong-minded and firm chief executive supported by an uncorrupt and efficient civil service.

It was desirable "to preserve the virtues of the British system; the rule of law and the sanctity of contracts, fair commercial practices, a level playing-field between all players whether they be well connected

insiders or unconnected outsiders, and transparency and accountability in all decision making," Mr Lee said in a speech distributed this week. These qualities had fashioned the modern Singapore.

Mr Lee's prescription for Hong Kong bears a close resemblance to the course he has charted for Singapore, a former British colony which was given self-government in 1959 and became independent in 1965. A key ingredient in the island's ability to attract a wealth of foreign investors has been the diligence and efficiency of its government, as well as the almost total absence of official corruption.

Many multinational companies see Singapore as an alternative base for Asian operations if Hong Kong falters after its return to

China. A trickle of business, motivated in part by uncertainty over China's imminent rule and in part Hong Kong's high costs, has already flowed Singapore's way.

Some wealthy individuals have taken money from Hong Kong in recent months and deposited it in Singapore, private banking executives said. Several media companies, such as Reuters news service, have decided to move editorial headquarters to Singapore.

Scores of Taiwanese companies, which have to maintain indirect commercial links with China under Taipei's regulations, have set up paper companies in Singapore so they can quickly start using the city-state as an alternative conduit for their China trade should their Hong Kong operations become

untenable. Other Taiwanese companies, such as Want Want Holdings, have found that listing their shares in Singapore has provided some insulation against the volatility that Taiwan's own market suffers during periods of military sabre-rattling by China. More Taiwanese and Hong Kong companies are expected to list soon in Singapore, officials said.

Hong Kong's economy would continue to be buoyant, Mr Lee said. "I have not said this to boost Hong Kong's morale and confidence," he added. As it is to point to Singapore's belief that Hong Kong would continue to prosper, he said Singapore's Government Investment Corporation "has invested, and is continuing to invest, a few billion dollars in Hong Kong".

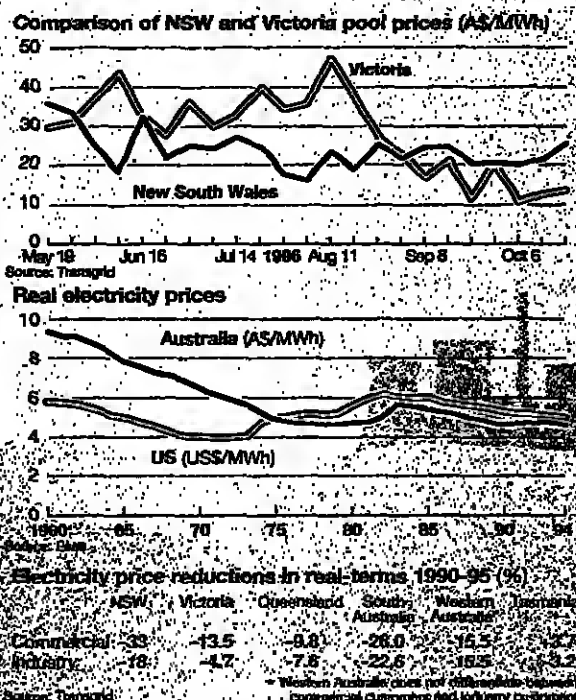


Lee: advice for Hong Kong

## Australia's 'national grid' starts to become reality

But the link-up between states is likely to remain a modest endeavour, writes Nikki Tait

### Australian power: a new balance



both markets separately.

By mid-1997, the changes should become more meaningful. The transmission cap will go, and Mr Brian Spalding, general manager of market development at Transgrid, hopes power system security can be managed "nationally". The Snowy scheme, owned jointly by the federal, Victorian and NSW state governments, will be "corporatised", and supply the joint market directly.

Even if the NSW-Victoria link-up goes to plan, a bigger question for Australian industry is how quickly these first steps can be built on, and what kind of economic benefits a progressive restructuring will deliver. The driving force behind

Australia's electricity sector reform is similar to that in Europe, the US or New Zealand - a conviction that more competition will deliver efficiency gains and lower costs.

What has complicated the restructuring - and made the Australian electricity deregulation model unique - is that state governments of different political hues have been overhauling the old utilities, at the same time as competitive pricing and interstate trading arrangements have been under development.

In Victoria, a right-wing state government has privatised most of the old state monopoly's assets, bringing in numerous private-sector owners for both the generating and distribution businesses. By contrast, a Labor regime in New South Wales has "corporatised" the former Pacific Power monopoly, and reorganised the distribution system. As a result, there are now three generators and six distribution units, all publicly owned.

This makes any merger of the state markets complicated. The competitive pool pricing systems developed in NSW and Victoria have significant differences, not least because of the different type of players involved and the

arrangements laid out when private bids were solicited in Victoria. The volatility of pool prices in Victoria has been noticeably more marked than in NSW.

To add to the difficulties, Australia's electricity deregulation is taking place in the context of a huge landmass. Western Australia was always going to be excluded from a "national grid" because of the intervening desert. But interconnection facilities are also limited on the east coast, with Queensland and Tasmania isolated from South Australia-Victoria-NSW.

While a cheer may go up when NSW and Victoria finally link, further progress will not come quickly. South Australia, which has generally imported electricity from Victoria under contract, is expected to be a player in the Victoria-NSW market, but in a smaller way than the two founding states.

A bigger question looms over Queensland, with one of Australia's fastest growing populations. It has a rising electricity demand, while NSW and Victoria tend to have excess capacity. But with no transmission link to New South Wales, Queensland's participation in the "national" market is unlikely before next century.

Finally, there is the question of what benefits this process will deliver. Electricity prices have already fallen significantly for business users. Figures show commercial users in NSW saw a 33 per cent drop in real terms between 1990 and 1995, while industry faced an 18 per cent reduction. This is variously attributed to elimination of cross-subsidies, a fall in energy prices, capital restructuring, and some stabilisation in demand.

How much more will be achieved by the interstate market is moot. Perhaps the big plus is that Australia is undertaking this restructuring later than some other countries, and can learn from their mistakes. People with experience of the UK deregulation, for example, are now working in Australia.

NUS International, the utility consultant, suggests that while the Australian arrangements are probably "far too complicated", more attention has been paid to overseeing arrangements. "There's more protection of the customer than there was in England," it comments.

### ASIA-PACIFIC NEWS DIGEST

## South Korean MPs arrested

Two prominent MPs from South Korea's ruling party were arrested yesterday for allegedly accepting bribes in a loan scandal involving the Hanbo steel and construction group, which went bankrupt last month.

Mr Hong In-ki and Mr Chung Jae-chul were accused of receiving Won800m (\$820,000) and Won100m respectively from the head of Hanbo to press banks and other financial institutions to lend nearly \$6bn to the financially troubled group for a huge steel mill.

The arrests represent a damaging blow to Mr Kim Young-sam, the South Korean president. Mr Hong is regarded as one of Mr Kim's closest aides, which gained him the nickname "the president's butler". Mr Chung is the third-ranking official in the governing New Korea party.

Prosecutors allege that Mr Chung also transferred Won100m in Hanbo bribes to Mr Kwon Roh-kap, a senior opposition MP, to prevent him from raising parliamentary questions about bank loans to Hanbo. John Burton, Seoul.

## Hashimoto's popularity dips

Popular support for Mr Ryutaro Hashimoto, the Japanese prime minister, has fallen by 13 percentage points over the past two months, according to a newspaper poll yesterday. He won 42 per cent approval in a poll by the centre-left Asahi Shimbun newspaper, traditionally a critic of Mr Hashimoto's Liberal Democratic party, down from 55 per cent in the most recent survey in December. Those who positively disapproved of the Hashimoto government rose by 10 points to 37 per cent.

Dislike of the 1997 budget containing tax increases and rises in public works spending was blamed for the decline in support, along with voters' scepticism that Mr Hashimoto would be able to deliver on promises to streamline Japan's large and powerful public administration. William Dawkins, Tokyo.

## US apologises for N-bullets

Senior US defence officials yesterday apologised to the Japanese government and Okinawa local administration for the accidental firing of radioactive bullets in air exercises over the southern Japanese island. The apology, to Mr Kunikida Saito, Japanese ambassador to the US, came in response to public Japanese concern that Tokyo was not told about the accident until last month, about a year after it happened. US jets fired more than 1,500 rounds of uranium-tipped bullets, inadvertently labelled as normal munitions. William Dawkins, Tokyo.

## Canberra trims benefits

Australia's federal government yesterday saw part of its budget arithmetic restored, when two independent senators last night voted to support measures restricting newly arrived migrants' access to social security benefits. The senators had previously voted against the measures, causing them to fail to pass in the Senate, where the Liberal-National government does not have a majority.

The measures backed by the two senators yesterday are estimated to save spending of about A\$300m (\$154m) over four years. Further measures, also related to social security benefits for migrants and work a similar amount, are due to be debated in the Senate again today. Nikki Tait, Sydney.

## Interest rate cuts unlikely

Mr Ian Macfarlane, governor of Australia's Reserve Bank, last night played down the likelihood of further short-term interest rate cuts. He told a Sydney audience the bank was looking with "some interest" at the impact of three cuts in official rates in the second half of 1996, when the economy was thought to be flagging. "Our feeling is that some of the effects are coming through." He acknowledged inflation pressures in Australia were modest, and suggested the outlook for economic activity in 1997 was good. Longer-term, the bank had to pay attention to possible wage and price inflation developments. Nikki Tait, Sydney.

## Automated shopping brings Japan a taste of the future

By Gwen Robinson in Tokyo

Japan's eponymous convenience stores promise to become a little more convenient. At least one has become fully automated and more are on the way. Its backers say it takes the stress out of shopping. As a commercial idea, they reckon it has a long shelf-life.

Am/pm Japan, a sister to the American chain of the same name but a relative newcomer to Japan, is behind this latest development in Japan's retail sector. Am/pm opened the automated store as a pilot project several months ago in the affluent business and residential district of Kojimachi, a few minutes walk from the company's headquarters. By the year's end, it plans to open 90 more fully automated stores, mainly within the greater Tokyo area, and intends to have 500 such stores in operation by the year 2000.

The brightly lit "combi", or (traditional) convenience store, stands on every second corner in Japan's inner-cities. In the 22 years since the first convenience store opened in Japan, nearly 50,000 stores have sprung up, and their number is expected to reach 100,000 by 2000.

The emergence of automated conve-

nience stores is likely to boost the already fierce competition between chain store operators. The benefits of automation are obvious, says its supporters. It saves on the growing costs and difficulties of securing around-the-clock labour amid the rapid ageing of Japan's population and shrinking of the workforce.

The only human touch is a security guard, employed to monitor the store's discreetly placed surveillance cameras. Security, in any case, is not the concern in Japan that it is in, say, America, according to Mr Jun Sekiguchi, a financial officer with Am/pm. "Besides," he added, "the glass is bullet-proof, and the money machines are very secure."

Behind the scenes, and the bullet-proof glass, is a slick operation. Rows of goods are laid out on shelves in glass-fronted cabinets. The selection includes toiletries, batteries, snack foods, blank videocassettes and CD-Roms.

Each item is numbered, and customers make their choice and punch in orders at a computerised console. There is a change machine in the corner to break large notes. The customer is issued a number and instructed to feed the required amount of money

into a machine. A long mechanised arm picks out requested items. Within a minute, a neat bundle of goods comes sliding down a delivery chute along with a plastic bag in which to carry them away. No fuss. No human contact.

Except if you have a complaint about, say, the limp lettuce or the dry bread. There is no one to note your grumble. Am/pm says stale food will rarely be found on its shelves.

Aside from the initial investment for automation technology and machinery, the cost of setting up an automated store is about ¥10bn (\$80m), compared with the average ¥25bn for a regular store, said Mr Kenji Nakagawa, who is overseeing the introduction of automated stores.

The company expects its automated outlets to turn over at least ¥100,000 per day, against an average ¥250,000 for the smallest regular outlet. The automated stores will be smaller than Am/pm's regular outlets and will stock a limited range of 300 items.

The company is a joint venture between American oil giant Atlantic Richfield, with a 30 per cent stake, and Japan Energy Corporation, a leading oil refiner and petrol-station operator, with 70 per cent.

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JPM 6/1/97



# American Airlines straps itself in for a rough ride

Crandall and his pilots are squaring up for a fight, writes Richard Tomkins

As airline employee groups go, pilots can be a difficult lot. Notoriously, they represent by far the biggest labour trouble — as American Airlines, which is on the brink of an all-out strike, will testify.

Then, again, as employers go, Mr Robert Crandall is no pussycat. Rather, the famously acerbic chairman and chief executive of American Airlines is probably the toughest executive in the US airline industry and has a history of confrontation with his employees.

The pilots and Mr Crandall, therefore, have all the appearance of an intractable

force meeting an immovable object. And unless federal mediators are able to achieve a last-minute accommodation, all 9,000 American Airlines pilots will start an indefinite strike at midnight on Friday night.

A strike would not only bring severe disruption to air travel in the US. It could also have implications for the proposed global alliance between American Airlines and British Airways if it does permanent damage to American Airlines' competitiveness, for example, by exhausting its financial

reserves or forcing it to pay uneconomically high wages.

As a class, pilots are one of the highest-paid employee groups in the US. American Airlines pilots were paid an average of \$120,000 each last year, plus generous benefits. And with unionised domestic pilots typically working only 12-14 days a month — international ones even less — many have second careers.

The pilots' high pay and short working hours derive largely from their ability to bankrupt their employer by taking strike action. "They have enormously powerful

unions, and most management have come to the conclusion that you are signing a suicide pact if you try to take them on," says Mr Robert Iverson, a former pilot for Eastern Airlines, which went bankrupt in 1991.

"Pilots are also better educated than most other employee groups, and they spend long hours in the sky with little better to do than think up reasons why they should be paid even more than they already are," Mr Iverson says.

On the other hand, the pilots argue that they have

made big sacrifices over the years to help bring their employers back into profit. American Airlines' pilots have not had a pay rise since 1993, but their company's net profits soared from \$162m to \$1bn last year.

Understandably, the pilots say they should share in the good times as well as the bad. American Airlines is not the only US carrier confronting this argument: United Airlines, Continental Airlines and Northwest Airlines are also facing varying degrees of pilot unrest.

American Airlines has

offered its pilots pay rises totalling 3 per cent over the next four years, plus 5.75m stock options. It says this is "at the outer limits" of what it can afford while remaining competitive with other airlines. The pilots want pay rises totalling 11 per cent over the four years, plus 10m stock options.

Airlines' smaller, regional jets. American Eagle pilots, who are paid less than those at American Airlines and belong to a different union, at present fly only propeller aircraft.

The pilots, represented by the Allied Pilots Association, were yesterday holding talks with American Airlines' management in a Rhode Island hotel after being brought together by the National Mediation Board, a federal mediation service. But the two sides looked far apart.

The last time American

Airlines came close to a pilots' strike was in 1991, when both sides agreed to binding arbitration to avert it. But a flight attendants' stoppage shut the airline for five days in 1993 before President Bill Clinton twisted Mr Crandall's arm and persuaded him to accept arbitration.

This time it is the pilots who are refusing to accept arbitration, accusing American Airlines of failing to live up to its commitments under the 1991 agreement. So, American Airlines is pinning its hopes on the probability that, if a strike does break out, Mr Clinton will soon be picking up that telephone again.

## AMERICAN NEWS DIGEST

### Growth in US productivity

The productivity of American businesses grew at the fastest rate in three years in the final quarter of last year, the government said yesterday.

The Labor Department said productivity outside the agricultural sector rose 2.2 per cent in the fourth quarter of 1996, a sharp improvement from the third quarter and the largest since a 2.8 per cent gain in the fourth quarter of 1993.

The rise exceeded the expectations of Wall Street economists, who had been looking for productivity growth of 2.1 per cent.

For 1996 as a whole, productivity rose 0.9 per cent, the best performance since a 3.2 per cent rise in 1992, but still slower than the longer term trend of annual growth of slightly over 1 per cent. In the fourth quarter, productivity jumped as output soared 5.9 per cent while the total number of hours worked rose 3.7 per cent. Unit labour costs, which make up two-thirds of production costs, rose 1.4 per cent in the fourth quarter after 3.3 per cent the previous quarter.

Reuters, Washington

### Cuban culture chief sacked

A veteran of Fidel Castro's 1959 revolution and leading ideologue of Cuba's one-party Socialist system, Mr Armando Hart, has lost his job as culture minister after more than 20 years in the post.

Mr Hart has served continuously in the government since 1959, first as education minister and then as culture minister. No reason was given for his substitution, announced briefly in Granma, the official Communist party newspaper. Now approaching 70, he was believed to be suffering from health problems.

He was replaced by Mr Abel Prieto, president of Cuba's official Writers and Artists Union (UNEAC). Mr Prieto was among a number of younger cadres elevated to the party politburo in October 1991. The substitution does not signal a change of political direction by Cuba.

President Castro said last week there would be no transition from socialism to capitalism while a single revolutionary remained alive.

Pascal Fletcher, Havana

### Colombia, UK in crime pact

Colombia's foreign minister, Ms Maria Emma Mejia, yesterday signed an agreement with Britain in London, allowing each country to seize assets gained from serious crime at the request of the other.

The Colombia passed legislation in December strengthening its ability to confiscate assets on behalf of other countries, paving the way for this agreement. It will come into force after certain legislative procedures have been enacted in both countries.

Ms Mejia said yesterday Colombia was close to finalising a maritime agreement with the US aimed at reducing the flow of illegal narcotics by sea from Colombia and the illegal imports of precursor chemicals used in drugs manufacture. However, there would be no question of automatic US access to Colombian territorial waters.

Colombia's second largest guerrilla army threw its weight behind a national strike yesterday, vowing to back workers' demands with "violence and grassroots disobedience".

The Cuban-inspired National Liberation Army (ELN) said the strike by state workers had to be backed by armed force if it were to succeed in getting its demands met by what it called the "narco-bourgeoisie" of President Ernesto Samper's government.

Reuters, Bogota

### Boesky settlements approved

A US federal judge in New York has granted final approval to \$28.9m in settlements of investors' civil lawsuits against Mr Ivan Boesky, the former arbitrator, and others involved in the 1980s financial market scandals.

The move on Monday resolves all the outstanding Boesky-related legal matters, according to an attorney for the investors suing Mr Boesky.

The investors will receive \$20.1m from Mr Boesky and the other defendants, who include Mr Martin Siegel, former head of mergers at Kidder Peabody, and Mr Robert Freeman, former Goldman Sachs trader. They will also receive \$48.7m in restitution that the defendants previously agreed to pay the Securities and Exchange Commission.

The deadline to file proof of claims in connection with the settlements is March 21, and investors are expected to start receiving payments shortly thereafter. The investors had alleged that they were defrauded by the defendants' insider trading and collusion with Mr Michael Milken, the former junk-bond king.

AP-Doug Jones, New York

### Oil group's tax bill pays for a third of government spending

## Pemex proves Mexico's godsend

By Leslie Crawford  
in Mexico City

What would the Mexican government do without Pemex, the state oil monopoly?

Not a lot, if the financial results of Mexico's largest corporation, released yesterday, are anything to go by.

Pemex, nationalised in 1938, paid \$19.13bn in taxes and royalties to the government in 1996. Its single contribution was greater than all the taxes paid by the rest of Mexico's companies put together.

Pemex's tax bill wiped out 93 per cent of its profits, and

66 per cent of its total revenues. And according to Pemex's calculations, it financed more than one-third of all government expenditure last year.

Pemex's drive to increase output, coupled with high world prices for crude oil, proved to be a godsend for the Mexican government as it struggled to balance its budget following the deep recession and financial crisis of 1995.

In 1996, Mexico saw the first significant increase in oil production in a decade. Pemex's crude oil output rose 9.2 per cent to 2.86m barrels per day (bpd), com-

pared with 2.62m bpd in 1995. Natural gas output also rose by 11.6 per cent to 4.195m cu ft per day.

Pemex's export revenues grew by 39 per cent in 1996 to \$11.6bn thanks partly to a 21 per cent rise in world prices for Mexican crude oil, which increased from an average of \$15.7 per barrel in 1995 to \$18.7 per barrel in 1996. Export volumes were also up by 19 per cent to 1.55m bpd.

When domestic sales are included, Pemex's total revenues of \$28.8bn in 1996 underscore the oil monopoly's pivotal importance to the Mexican economy: its

revenues equalled about 10 per cent of gross domestic product.

Pemex plans to increase oil production by a further 8 per cent in 1997 to 3.08m bpd. Natural gas output is also scheduled to rise by 8 per cent to 4.545m cu ft per day. Pemex has not placed such emphasis on increasing output since the oil boom of the late 1970s and early 1980s.

To do so, its investment budget has grown by 70 per cent this year to \$5.9bn, compared with the \$3.47bn in 1996 and a mere \$2.47bn in 1995.

Legacy of shock therapy. Page 11

## Clinton upbeat on budget accord

By Bruce Clark in Washington

President Bill Clinton said yesterday that he and his Republican adversaries could "do great things together" by co-operating over important public issues, including the balancing of the US budget.

Mr Clinton struck an upbeat note as he held an unusual meeting with senior Republican legislators, whose controversial effort to enforce fiscal restraint by altering the constitution appeared to have stumbled.

The balanced budget amendment, a Republican idea that the president and fellow Democrats

strongly oppose, took a small step forward in the Senate this week, but it has run into problems in the House of Representatives. The constitutional change would require approval by two-thirds majorities in both chambers, plus ratification by three-quarters of the state legislatures.

The president appeared confident that he has the upper hand in his dealings with Congress as he met the six top Republicans from the House and Senate, as well as four prominent Democrats.

"The whole system... is tending towards movement instead of paralysis and that's a good thing for America," he said, while hal-

ling the "enormous opportunities" that bipartisan co-operation could bring.

Mr Clinton's optimistic tone reflected a belief — well supported by public opinion polls — that the Republicans did themselves more harm than good when they tried head-on confrontation after their election victories in 1994.

Senator Trent Lott, the Republican majority leader, cited taxes, education, crime, drugs and the environment as the issues making up a "critical agenda" which he wanted to see the president tackle.

Both sides were at pains to stress that yesterday's broad discussions did not amount to a formal negotiating session on the budget.

The budget-balancing plan unveiled by Mr Clinton last week has been accepted by Republicans as a starting point for discussion, but the proposal for a change in the constitution could still lead to a bitter clash.

Moves to advance the amendment in the House were put on hold until next month following the last-minute cancellation of a meeting of the House judiciary committee that was due to take place yesterday. It was apparently cancelled after Republicans realised they could not be sure of voting down a tactical counter-pro-

posal by the Democrats which would have mandated a balanced budget but excluded social security.

If the vote had gone ahead, some Republicans might have broken ranks and supported the counter-proposal, for fear of alienating constituents, especially the elderly, who depend on social benefits.

Mrs Madeleine Albright, the new secretary of state, yesterday defended the administration's request for an increase in the international affairs budget by saying that the US could not exercise global leadership "on the cheap".

## Vancouver tunes in to the Chinese market

Canadian media eager to please influx of SE Asian immigrants, writes Bernard Simon

The Canadian Broadcasting Corporation normally broadcasts only in English and French. But the CBC's Vancouver television station has been running spots in the past week with the traditional Chinese New Year greeting — *Kung hei fat choy*.

The eagerness to please Chinese viewers reflects the surge in immigration to Canada, especially Vancouver, from Hong Kong, Taiwan, mainland China and other parts of southeast Asia.

Ethnic Chinese now make up an estimated 15-20 per cent of Vancouver's 1.7m residents. Another 360,000 live in Toronto. The CBC is among a growing number of media that have spotted a receptive and growing audience, as well as a growing source of advertising dollars.

Vancouver now has three Chinese-language daily newspapers, two pay-TV stations, one community channel, two radio stations and several magazines. Electronic and print media catering to Chinese communities have also mushroomed in Toronto, Calgary and Edmonton.

Politicians, conscious of the growing number of voters and potential campaign contributors, increasingly court the Chinese media. Vancouver's Non-Partisan Association hired a Chinese media consultant during recent municipal elections.

Mrs Sally Aw, controlling shareholder of Sing Tao Holdings, the Hong Kong-based group that owns the highest Chinese daily paper in Vancouver and Toronto, last year endowed a journalism school at the University of British Columbia — the first in western Canada. Mrs Aw is also a substantial donor to the University of Toronto.

The lure of the Chinese market for advertisers is reinforced by Ottawa's immigration policy, which tends to favour well-heeled investors and entrepreneurs. Nearly a quarter of arrivals from Hong Kong are classified as business immigrants, compared with 6 per cent from other countries.



Some of the publications aimed at the growing, receptive Chinese readership in Vancouver and other Canadian cities

Mr Kam, competition and investment in new printing presses have put pressure on profits in recent years.

Besides language, the Chinese media differ in some significant ways from their English counterparts. Their reporters are generally younger, less experienced

and less well paid. Not surprisingly, their coverage is less critical.

The Chinese papers allow local politicians — a growing number of whom are ethnic Chinese — to write their own columns. "Our mission is to bring out the facts, not to form an opinion," Mr Fung said.

On a Vancouver public relations manager, a Chinese-Canadian, added: "They are fairly apologetic, but definitely pro-immigrant."

Cut-throat competition has so far not discouraged expansion plans.

Fairchild has forged an alliance with a proposed national satellite television service. Maclean's, the weekly news magazine, plans to step up the frequency of its Chinese edition from once every two months to 10 a year.

However, continued growth in readership or advertising revenues cannot be taken for granted. One threat to the Chinese-language media may be the gradual assimilation of readers and viewers into main-

stream American society.

Fairchild TV dubs several programmes from English stations, including Vancouver's most popular local news bulletin. Sing Tao signed a deal with Toronto's Financial Post last year to reproduce a page of investment analysis — in English.

Mr Fung counters by pointing to the growing influence of "trendy stuff" from Hong Kong in entertainment, music and fashion. About half of Fairchild TV's content comes from Hong Kong's two channels, with another 15 per cent originating in Taiwan, China and Japan. (The remaining 35 per cent is locally produced.)

However, the immigration and spending boom has recently shown signs of subsiding. Many adverts in recent bumper Sing Tao and Ming Pao editions are for houses and condominiums put up for sale by Hong Kong investors who have decided not to emigrate to Canada for the time being, or to seek better returns elsewhere.

## CONTRACTS & TENDERS

### ANNOUNCEMENT OF TENDER PROCEDURE

## SCHIPHOL GOLF & BUSINESS CENTER

Amsterdam Airport Schiphol wishes to meet investors and/or operators for the realization of the Schiphol Golf & Business Center.

### Project Description:

The Schiphol Golf & Business Center will comprise a four-star 200-room hotel with conference and leisure facilities and an 18-hole golf course to international standard with practice facilities.

### Project Location:

The site available for this project covers an area of 73 hectares (180 acres) close to the airport, 10 minutes by road from the Terminal and 15 minutes from the commercial and business centers of Amsterdam.

### Conditions:

The site is the property of Amsterdam Airport Schiphol and will be offered for long-term lease. A concession agreement will be concluded for the operation of the hotel and golf course. Interested parties should be willing both to invest in the project and to undertake its development and operation.

### Closing date:

Interest may be expressed until 26 February 1997.

### Further information:

Applications, in writing, for further information may be addressed to: Amsterdam Airport Schiphol, Schiphol Real Estate, PO Box 7501, 1118 ZG Schiphol Airport, The Netherlands, tel.: (+31 20) 601 41 10, fax: (+31 20) 601 37 01





## NEWS: UK

# Defence ministry refuses to reveal details of order for Trident submarine facilities

## Dockyard angry over costs blackout

By Bernard Gray,  
Defence Correspondent

Babcock, the company which owns the Rosyth naval dockyard in Scotland, reacted angrily yesterday to the defence ministry's refusal to disclose the costs of new nuclear facilities to be built at the rival Devonport yard in south-west England.

Devonport was originally awarded the contract to build dry docks for Trident nuclear missile submarines following a fierce bid battle with Rosyth in 1993. But in more than three years of negotiation over the terms of the contract, the costs have spiralled to well over the levels tendered by both yards in the competition.

### Bombardier offshoot wins \$12.9m missile contract

Shorts, the Northern Ireland aerospace company owned by Bombardier of Canada, has won a further \$12.9m contract to demonstrate its advanced Starstreak missile on the US Apache tank-busting helicopter, Bernard Gray writes.

The missile is being considered as an air defence weapon for the Apache, to protect it from attack by fighter aircraft, in a final order which could be worth \$1bn.

Shorts initially won a \$6m contract to assess the feasibility of the missile's use on Apache in 1995. Following tests by the US Army, including six test firings, the US has decided to integrate

the missile into the Apache's armaments computers.

Further tests will be conducted over the next 18 months, and the US is then likely to decide between the domestically produced Stinger missile and Starstreak for arming its 800 Apache gunships.

Devonport and the final agreement on the new nuclear facilities yesterday, the ministry refused to disclose the cost of the nuclear facilities. The ministry argued that the details are "commercially confidential".

Mr David Clark, the opposition Labour party's chief defence spokesman, said yesterday: "This is simply unacceptable. In the interests of the taxpayer and in the interest of ensuring value for money, the ministry must publish these figures."

Babcock said it did not wish to reopen the 1993 decision. It rejected the ministry's suggestion that the contract with DML was commercially sensitive. "The

protect vulnerable House of Commons seats in the south west. Ministers should be called to account for saving south-west Tory MPs' skins at the expense of the taxpayer," he said.

DML will have to start on the new facilities immediately because the three-year delay has left little time to complete the work before the first Trident submarine must be refuelled in 2001. "The timescale is very tight but we think it is achievable," said DML yesterday.

The ministry has signed a contract worth £700m with Matra BAe Dynamics for development and production of the Storm Shadow cruise missile for the Royal Air Force. The programme was initially awarded to Matra BAe last July.

## Father figures fill skills gap in engineering

### Companies take new tack to outpace falling recruitment

The UK subsidiary of a US bearing maker and the British division of a Japanese machine tool group are among manufacturing companies responding to a shortage of qualified engineers by retraining their adult workers or even recruiting from other professions.

Three or four of the 10 or 12 apprenticeships offered each year by Timken - a subsidiary of the US bearing maker based in the city of Northampton - to the north-west of London - go to adults, usually in their late 20s or early 30s.

About 30 per cent of the 300 direct production staff of the UK division of Yamazaki Mazak, the Japanese machine tool company, based in Worcester in the English Midlands, have come to the company from a field other than engineering.

Up to a quarter of the 8,000 apprenticeships available last year to school-leavers were not taken up. Many in the industry are worried

that a large number of the 12,000 places on offer this year will not be filled.

The industry reckons it needs up to 35,000 new recruits each year, taking into account people with all levels of engineering skills from apprentices to graduate engineers, but is falling short of this number by 5,000 to 10,000. In an attempt to raise the industry's profile and attract more recruits, a £25m campaign called the Year of Engineering Success was launched last month.

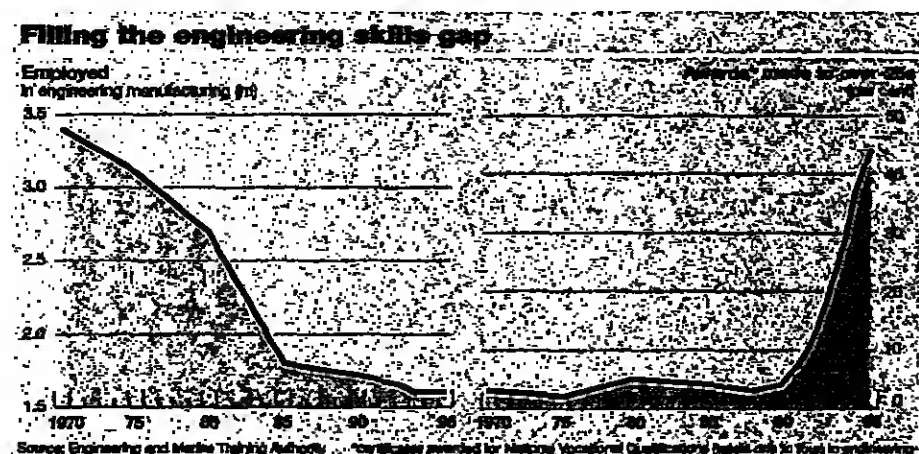
Timken offers engineering craft training to employees who have worked as operators and setters. "If we take

someone who has already been on the shopfloor, the end product is a very rounded engineer. They act as mentors and father figures for some of the younger apprentices," says Mr George Foale, human resources manager and a former apprentice himself.

The three-year adult apprenticeships are part of a wide-ranging retraining programme begun by Timken in 1993. Mr Ray Howes, production manager, estimates that productivity has risen by 20 per cent in the past 18 months and that product quality has improved by 30 per cent. Production costs have been cut by 5 per cent and labour turnover is down to about 1 per cent.

Dr Michael Sanderson, director of the Engineering and Marine Training Authority, says companies are devoting more resources to adult training as the pattern of production-line work changes. "Quite a lot of the industry is switching from flow-line to cellular manufacturing, with teams of people sharing assembly tasks. This is happening with support as well as production processes," he says.

Forty-four per cent of the qualifications awarded last year by the EMTA went to over-25s, compared with five



per cent in 1979. Companies are increasingly looking to recruit beyond those with traditional engineering backgrounds. "We will take anyone with the right attitude and potential. We have literally taken butchers and bakers," says Mr Martin Lawrence, personnel manager of Yamazaki UK.

Mr Graham Elcock, aged 45, was a carpet weaver by training and joined Yamazaki seven years ago. "The industry was on the wane and I was looking for something a bit different," he says. He has since trained in turning, programming and computer numerically-controlled machining and now works in production control.

"The good thing here is you can admit to your shortcomings. I couldn't have carried on doing the CNC programming without the

training," he says. "When I first joined I wasn't sure whether I wanted to work here long-term. But I'm very happy here now."

Mr Lawrence says those who have proved able to acquire expertise in a number of areas of production now have skills to match those of their engineering-trained peers. But he admits that others have found it hard to adapt to the teamwork environment.

Dr Sanderson says that recruitment from non-engineering backgrounds is now standard practice for many production-oriented businesses. "When there is a shortage, the industry solves that in the most sensible way. It is really a question of identifying people who are numerate and have an aptitude for problem solving."

Michael Peel

## Assurance on 'mad cow' risk to calves

By Alison Maitland  
in London

"Mad cow disease" is transmitted directly to calves at a lower rate than feared when initial findings were published last July, an expert on infectious diseases said yesterday.

This is because some calves appear to have a genetic predisposition to the disease, which can be triggered by eating contaminated feed, rather than catching it directly from their mothers.

The findings came from Professor Roy Anderson of Oxford University's Epidemiology of Infectious Diseases Centre, who was asked by the UK government to analyse national transmission of bovine spongiform encephalopathy (BSE).

The analysis should prove reassuring because it indicates a reduced risk of cattle picking up the disease now that contaminated feed has been cleared from the UK production chain. Officials said it was "an important piece of research".

The UK government is due soon to begin culling an estimated 100,000 cattle considered most at risk of developing BSE. The cull is crucial to any easing of the European Union export ban on British beef.

The European Commission said the Oxford analysis would be studied by EU veterinary experts next month. Meanwhile the commission was still awaiting concrete proposals from the UK on lifting the ban on beefs certified free of BSE.

Prof Anderson's analysis of the eight-year government experiment with two groups of 300 cattle showed the greatest risk of infection was in calves born in the five months before BSE was diagnosed in their mothers. It confirmed that 10 per cent of such calves were at risk of developing BSE.

But within that 10 per cent, only 7-8 per cent appeared to receive the disease directly from their mothers. Extrapolating from the experiment to the national herd, fewer than 1 per cent of calves are likely to catch the disease from their mothers, given a five-year incubation period, said Prof Anderson.

The remaining 2-3 per cent in the experimental group appeared to have a genetic predisposition to the disease, which was then triggered by eating BSE-contaminated feed. Such feed was officially banned in 1988 but entered the feed chain until 1993, he said.

The government would not comment on the findings, saying its scientists were still comparing the experiment's findings with BSE cases in the field.

Fat Controllers, Page 10

## Record on jobs creation 'a myth'

By Robert Taylor,  
Employment Editor

The UK government is accused today of exaggerating the country's record in tackling unemployment compared with that of France and Germany.

The UK Trades Union Congress says in a report that if all those people who say they want to work are taken into account in Britain, Germany and France, the UK's jobless total would be higher than those of the other two.

Official figures for the UK from the European Union's latest labour force survey for 1995 show that more than 2m people in the UK are not counted as unemployed by the standard international definition compared with 340,000 in France and 850,000 in Germany.

The International Labour Organisation's definition covers those looking for work in the past four weeks and those who are able to start a job in two weeks.

The TUC says that while 15 per cent of the UK labour force were either actively looking for work or said they wanted a job, the comparable figures for France and Germany were 13 per cent and 10 per cent respectively.

"UK government claims represent only the tip of the iceberg of Britain's real jobs problem," said Mr John Monks, the TUC general secretary.

"Their claim that Britain's hire and fire policies have put us ahead of the French and Germans are a myth. Millions who want to work are simply not counted."

The TUC said that while unemployment had fallen in the UK since 1995 while it had risen in France and Germany, "even making a reasonable allowance for this, it would still leave the UK behind France and Germany".

## Privatisation winner runs transport in Lyon and Dresden

### French group joins rail venture

By Charles Batchelor,  
Transport Correspondent

A seven-year franchise to run the Thameslink rail network in southern England was awarded yesterday to GoVia, a consortium of Go-Ahead bus group and Via GTI, a French transport operator. The franchise was part of the government's programme of privatising the national rail network.

Mr Martin Ballinger, Go-Ahead managing director, said: "This partnership is just the start of what we hope will be our European strategy." The two companies

hope to develop further transport activities in mainland Europe.

Via GTI manages bus, tram or metro systems in 58 French cities including Lyon and Lille, and also runs intercity services. It runs buses in Jerez in Spain and in Düsseldorf and Dresden in Germany. It claims to be the largest private sector transport group in France with transport revenues of FF575m (\$890m).

Go-Ahead and Via GTI are also one of two shortlisted bidders to take over the Docklands Light Railway in east London. The DLR operates automated driverless trains similar to those run by Via GTI in several French cities.

At Thameslink, which runs trains between Brighton and Bedford via Gatwick Airport through a tunnel under the City of London, GoVia plans to add other services in time.

GoVia will receive a subsidy of £2.5m (\$4m) from the government's franchising director in the first year of the franchise compared with £11.1m which would have been paid to British Rail.

This will convert to a premium payment by GoVia in

year three and rising to a premium of £28m at the end. On average GoVia will pay an annual premium of £17m. Thameslink has revenues of £76m a year.

Thameslink is to undergo a £550m expansion over the next six years to increase capacity in central London from eight to 24 trains an hour. The franchising director has an option to end the franchise after 5½ years if new rail services become possible on the line though he would have to pay GoVia compensation.

Fat Controllers, Page 10

Mr Abbas Gokal (pictured), the former Pakistani shipping magnate accused of taking part in a \$1.2m fraud that led to the collapse of Bank of Credit and Commerce International, yesterday spoke in his defence at the Old Bailey, London's Central Criminal Court. The prosecution alleges that Mr Gokal headed the Gulf shipping empire which ran up illegal debts of \$1.2bn after running into financial trouble in the late 1980s. BCCI could fund the loans only by stealing \$500m from the account of the Sheikh of Abu Dhabi, the court heard.

Mr Gokal denied conspiring with BCCI management to defraud the bank's depositors and deceive its auditors Price Waterhouse. He denied a further charge of conspiring with BCCI management to account falsely to allow the secret funding of his empire to continue.

His lawyer said Mr Gokal was a victim, not a perpetrator, of the BCCI fraud. "His companies were improperly used by BCCI, unknown to him, as vehicles for fraud," Mr Gokal's signature had been forged by BCCI staff on many occasions, he said.

John Mason

Conservative Party

Premier rebukes health minister

The issue of leadership of the Conservative party returned to the fore yesterday after Mr John Major, the prime minister, told Mr Stephen Dorrell, his increasingly prominent chief health minister, that Mr Dorrell had no role in the party's attacks on opposition plans for devolution of government in Scotland and Wales.

Mr Dorrell contradicted policy on Monday when he appeared to suggest that in the long-term the Conservatives might abolish a Scottish parliament - one of the main planks of the opposition Labour party plans for constitutional reform. Mr Dorrell's re-positioning on the European Union, from ardent supporter to sceptic, was understood to have annoyed Mr Major, who saw his moves as a pitch for a leadership contest that would probably follow a general election defeat.

The government has not ruled out legislation to make denying the existence of the Nazi Holocaust a criminal offence, Mr Major said yesterday. He told MPs he wanted further consultation with Britain's Jewish community before making a final decision.

John Kampfner

Internet

Number of reservations doubles

The number of British companies reserving their names on the Internet has almost doubled in the past six months, with more than 40,000 now registered, according to the latest figures from Nominet, the authority charged with assigning names in the UK.

Some of the companies are rushing to register because of the risk of finding that their name has already been registered by another similarly named company, says Nominet.

It controls Internet addresses ending with .uk under delegation from the Internet Assigned Numbers Authority, which is charged by the voluntary Internet Society with ensuring that names are unique. James Mackintosh

## UK NEWS DIGEST

### Irish premier warns IRA

Mr John Bruton, prime minister of the Republic of Ireland, yesterday reaffirmed his commitment to the search for a settlement in Northern Ireland and announced plans to visit there this month ahead of his annual trip to the US for the St Patrick's Day celebrations in March.

Mr Bruton warned Sinn Féin, the political wing of the Irish Republican Army, that the long-running talks about the future of Northern Ireland would continue without it if the IRA failed to abandon violence.

Writing in the Belfast Telegraph, a Northern Ireland newspaper, Mr Bruton rejected Sinn Féin's charges that the IRA's 1994-96 ceasefire had been frittered away by British government inaction, pointing out that Sinn Féin had been given "a degree of access unprecedented for a political party of this size".

Speaking yesterday in the Dail, the lower House of the Irish parliament, Mr Bruton said the talks remained the "primary axis" of contact between the parties, but said his plans to travel to Belfast were aimed at cementing contacts with a wider section of Northern Irish opinion.

John Murray Brown

## TRUCK OBSTRUCTIONS

### Bridge work may be delayed

Strengthening Britain's bridges to carry new EU-approved 40-tonne trucks may take at least until 2005 at least, the House of Commons Transport Committee said yesterday. It was supposed to be complete by 1999.

The committee said Britain's roads and bridges were deteriorating fast because of government cuts in the maintenance budget. "If bridges are unable to cope with heavy lorries, they will have to be closed or weight limited in some way," the committee said. "Such measures could isolate many businesses from the road network, and there are likely to be many instances where firms will suffer."

Mr Edmund King, head of campaigns at the Royal Automobile Club, said: "Recent high-profile closures of major bridge links on busy routes provide an early taste of the chaos likely to ensue."

George Parker

## TAX COLLECTION

### Bankers protest at new powers

The British Bankers' Association yesterday lobbied the government in an attempt to block provisions in the finance bill which would give Customs & Excise officers new powers to collect unpaid tax.

A controversial clause in the bill allows officers to demand payment of a bill from any bank, company or individual that owes money to a taxpayer in default.

It is understood that the Customs department will seek to emphasise that the proposed rules will be used only in restricted circumstances and could help save companies from insolvency. But the association fears that the rules would be used to demand payments from banks. It is also concerned that they threaten banks' right to set off accounts held by the same customer. Bankers fear Customs could target accounts in credit, leaving the bank with those in debt.

Jim Kelly

## MERGERS AND ACQUISITIONS

### Non-UK companies invest more

Companies based outside Britain stepped up their spending on UK acquisitions from £1bn (\$1.63bn) in the third quarter of last year to £2.3bn in the fourth, the Office for National Statistics reported yesterday. Spending on domestic mergers and acquisitions by UK companies declined from £8.9bn in the third quarter last year to £4.3bn in the fourth. Overall, the level of acquisition activity in the UK was lower in 1996 than in 1995. The office said UK companies spent £11.5bn on acquisitions in other countries, down from £12bn in 1995. Wolfgang Munchau

## BCCI COLLAPSE

### Businessman 'was a victim'

Mr Abbas Gokal (pictured), the former Pakistani shipping magnate accused of taking part in a \$1.2m fraud that led to the collapse of Bank of Credit and Commerce International, yesterday spoke in his defence at the Old Bailey, London's Central Criminal Court. The prosecution alleges that Mr Gokal headed the Gulf shipping empire which ran up illegal debts of \$1.2bn after running into financial trouble in the late 1980s. BCCI could fund the loans only by stealing \$500m from the account of the Sheikh of Abu Dhabi, the court heard.

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John Mason

## CONSERVATIVE PARTY

### Premier rebukes health minister

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12/02/97



Television/Christopher Dunkley

# All schlock and superficiality

Still they come at us, the new series for this new television season - *Fortean TV*, *The Show*, *Last Chance Lottery*, and more. It is no flash in the pan. Henceforth this will be the routine, with the number of new series increasing in something more than geometric progression as Channel 5 comes on stream next month, then in mid 1998 (perhaps) digital terrestrial television with its 30 or so channels, and, possibly even sooner, digital satellite with 200 or more. Few if any of these new services will offer anything comparable in quality to *Pride and Prejudice*, *The House of the Dead* or *Donkey*: the industry has neither the talent nor the money to do it. BSkyB which has positioned itself so cleverly at the centre of so much of this new activity, even in instances where its old competitors, BBC and ITV, are involved, is already running more channels than the whole of British terrestrial television, yet spending a fraction of the money on making programmes.

And that will be the pattern. Most of these networks will have existing programmes, pay-per-view movies, "golden oldies" and

so on. When they do create their own material, the evidence suggests it may well be the sort of programme already very familiar to us, locked in a studio and spun out of nothing: a bit of topical chat (but nothing too taxing), some jokes (though none that might offend), a bit of music, a guest or two (though nobody too serious), lots of bright lights, sets in the colours of boiled sweets with dry ice, and to present it all, of course, some fashionable figure - an "alternative" comedian, a disc jockey, a sportsman - preferably with an accent that keeps forcing its way into your consciousness.

There has been a whole raft of programmes of this sort starting this season without any help from alternative technologies. *Last Chance Lottery* on Channel 4 on Saturdays is a typical example. A young man described as a comedian ambles around a set

decorated in *Playschool* colours burling "Sunshine", greet, lovelily". The studio audience, who are either on uppers or have been whipped into a frenzy by a warm-up man, react hysterically to every line. "Things went purr shaped" says the presenter and they howl with mirth.

Half an hour after that ends Channel 4 screens another called *The Show*. Bob Mills who presents it has, in the past, proved very funny describing the idiocies of television, and television conventions, using videotapes for examples. Now he will have a stock of his own tapes providing a mass of fresh material. Like so many before him, the team making this programme presumably said, during a production meeting, "Honestly if you brought a camera in here it would be so much better than

anything we'll ever get in the studio". But where modesty and common sense have prevailed in the past, this lot have actually indulged themselves and done it. So now we get clips of embarrassed and embarrassing moments backstage in which the "ward" is dutifully over-sized

to open the show with the sort of object-joke routine which Clive Anderson borrowed from the American chat shows, this week holding up what he said was Fergie's next wedding dress, with sponsors' logos all over the front and a mattress sewn to the back. He chats briefly and superficially with a guest who usually has a connection with a recent news story (the woman who wants to use her late husband's sperm, one of the protesters from the tunnels beneath the site of the new road) and then - in a variety show tradition which goes straight back to the 1950s,

and beyond that to music hall - the band provides a musical interlude.

The new Wednesday edition of *The National Lottery Live* on BBC1 has the same sort of garish set, the same sort of audience, trained in the same American whooping technique, and, as guests, people who have won the lottery in the past and managed to avoid the subsequent pitfalls reported with such glee in the tabloids. The tone and atmosphere are, consequently, indistinguishable from those in all the other studio schlock shows. The presenter is former glamour model Carol Smilie and there are rather more musical interludes. Bafflingly the word "playing" is repeatedly used to describe participation in the lottery, though if you look at the glut people handing over their lottery money in newsagents every week you would no more describe their activity as

"playing" than you would that of the sad people in betting shops. *New Year's Eve* on BBC2, of all places, on Fridays is, again, studio bound, has, yet again, the same fairground look, yet another howling audience, and a one-time stand-up comedian as presenter (Mark Lamarr). This, however, is a quiz show and a more entertaining example than some, the subject being pop music. Contestants are given part of a lyric and asked for the next line - what comes after "If young Nigel says he's happy"? - or two members of the team have to sing the instrumental element of some past hit accurately enough for the third to identify it. You can sense an entire generation of air-guitar exponents playing along with this at home. As with presenter Angus Deayton in *Have I Got News For You*, the funniest lines tend to be those that have clearly been pre-scripted for

Lamarr, but the contestants are usually knowledgeable and funny enough to keep their end up. The worst of the new series is somewhat different. *Fortean TV* on Channel 4 is a television spin-off from a wonderful magazine called "Fortean Times" which calls itself "the journal of strange phenomena" and reports, invariably sceptically, on everything from UFOs to weeping Madonnas. The television series, presented by a banjo player who, for reasons best known to himself, wears a black bomber jacket and a dog collar, appears to take everything seriously. From ghosts to sea monsters it reports as though these were as real as double decker buses and bagpipes. Even when it turns out that the chief presenter of a Swedish lake monster is the head of the tourist board, this programme does not alter its tone of credulousness. It is all part of the current attitude in television that all things are equally plausible: the second law of thermodynamics and aromatherapy, universal satanic abuse and fox hunting.

Of course on terrestrial television there are also impressive new series. We shall come to those next time.

## Dance Steps of wounded romance

Polly Jean Harvey is a desolate romantic, a bag of bones with a broken heart. She also has a spectral charisma, and that is the story and misfortune of *Dance Hall at Louise Point* at the Queen Elizabeth Hall, a collaboration with the Mark Bruce Dance Company, based on her album with composer John Parish.

To the right stands the band in a cable tangle, and on the dance floor beside them, five dancers spin through the small hours. Only once does Polly move forward, but she watches the dancers with steady concentration and compassion, a Cassandra of their inevitable calamities.

"I remember everything" are her first words, and at once you know that she loves with terror and solemnity, gripping at grudge, clinging to desire. Her banshee wails and whispers cut through Parish's eerie, thrashing soundscapes, but do not make for easy dancing. Although Bruce launched his company in 1994 with *Love Sick*, also set to Harvey's songs, here movement must compete with her magnetic presence, and it is always a struggle to tear your eyes from her when she sings.

Bruce wittily picks up on some of Harvey's gestures - her fluttering, played hand recurs as an image of butterfly flight and entrapment, trembling down a lover's back, then clenching into armlock. The dancers echo the unexpected gleam with which Harvey gulps at her torment: they lunge towards caress.

In this world, men are at once groping seraphim and sadsack desperados, and Bruce's two blokes often mark time turning on the sidelines. Women win the best moves: Bruce knows that when it comes to reeling in hearts, the hips have it. Two women dancing together is the closest anyone comes to fun, practising their lush winding, fitting to each other's curves like snugly snakes.

It is this will of time-forgotten ambience that is the evening's strength. *Johnnie Fong* has designed skimpily dresses in which to flirt the night away and wake next morning to find fan-



Compelling star with spectral charisma: Polly Jean Harvey

tasy crumpled in the pocket. The voluptuous Fong also leads the dance, propping up flesh on a slender foot, teasing and tormenting with the seduction groove.

Thankfully, the show is more obviously witty than the album. Where Harvey and Parish's version of the Peggy Lee standard "Is that all there is?" had sounded like an intensive-care waltz, here it captures a wry fatalism. Down comes a glitter-

ball, and Fong mooches over to Polly to share a boozey swirl of abandonment. They smile and twitch dismissive hands - the game of love and misadventure may be a bad one, but it's the only one they know.

Harvey's songs make a religion of wounded romance, and we are shown a forlorn trio of angels stretching their arms over a sweaty back-seat coupling. This is a rare interpretive gesture, and if Bruce's imagery were as bold

as his atmospherics, if he had been able to infiltrate Harvey's vengeful wrath into his choreography, *Dance Hall* would have been more than a showcase for a compelling star.

David Jays

Further performances at the Newcastle Playhouse (February 17, 18, 19), and the Oxford Playhouse (February 21).

Theatre/Ian Shuttleworth

## Misfits at the Citz

The Glasgow Citizens' phase a decade or so ago of "marvellous designs, acting all over the place" was before my time as a professional critic, but after seeing the theatre's current main house production I now feel I have some little idea of that phenomenon. Its twin studio presentations, though, exhibit few disjunctions. Ian McDonald's *Conversation With A Cupboard Man* is skilfully directed and designed by Jon Pope, adding a visual dimension beyond the simple re-enactment of the narrator's tale. As the Cupboard Man recounts the history of his warped personal development - he was at first held back by a possessive mother, later forced to grow up at a dizzying pace when she effectively grew bored with him - and explains his infantilism and hunger for the safety of enclosure, actor Brendan Hooper negotiates a two-inch-deep pool of water, alternately avoiding it and immersing himself in it. Michael Lancaster's fine lighting provides further augmentation, as does an astounding act of God at one point as the protagonist tells of being locked into a commercial-sized oven. Hooper's wet hair begins gaily to stream under the lights. He gives a strong, defiantly blunt performance, but the story itself and the 55-minute

show add up to little more than a curious if sombre diversion.

Upstairs, Robert David MacDonald directs his own translation of what he has chosen to call Strindberg's *Miss Julia* with a strangely restricted tone. MacDonald's production is about class much more than sex. Jean the footman (Michael Albertson) is all uppity self-importance, parading a high opinion of himself which kitchen-maid Kristin has heard so often she can recite it with him. Andrea Hart's Miss Julia is every inch the condescending patrician, engaging in cool verbal fencing with Jean but showing no deep emotion. Since the reversals of the play depend upon the protagonist's sexually generated journey to distraction, this approach effectively leaves much of the action unexplained; after 80 quite passionless minutes, Miss Julia goes to her death seemingly out of an incomprehensible sense of social obligation rather than in the depths of a primarily sexual despair.

Antony McDonald moves away from his primary field of opera to direct and design William Wycherley's *The Country Wife* in the main house. The curtain rises on Henry Ian Cosick as Horner, languishing in bed amid a huge puce parallelogram, explaining his stratagem (of pretending to

be a eunuch in order to gain privileged access to a stream of society ladies) with inappropriate and unappealing weariness. He and his fellow rakes gad about abstract geometric representations of 17th-century London clad in leather and Lycra and with a kind of polymorphously perverse lassitude.

The word "rump" is plainly not in McDonald's vocabulary. Characters move, with sometimes ludicrous gratuitousness, to dangling microphones in order to deliver their asides, and the sexual shenanigans contain all the bawdy comedy of an extended edition of *Come Dancing*. Mark Aiken as Pinchwife is coldly rather than hotly jealous of his innocent young bride; Amy Robbins as his sister appears to have been told that the play is the tragedy of Althea's compromised honour. Siobhan Stanley injects some sorely-needed vampish humour as Lady Fidget, but in general, when characters do find themselves in the same play, it is not one recognisable from the title. A few years ago the West End saw a musical adaptation of *The Country Wife* entitled *Lust*; McDonald seems to prefer *Louche*.

All shows run at the Citizens Theatre, Glasgow until March 1 (0141-429-0022).

## Concert Seamless Brahms

were respectively Schiller and Hölderlin. The London Symphony Chorus made a lovely, seamless sound, and Davis led them with all due tenderness. A week earlier they had performed the *Gesung der Parzen*, too. It was puzzling, though, that Davis had not found room for *Rinaldo*, the stern dramatic cantata op. 50; that really is neglected.

"Seamless" and "serene" were proper epithets for Davis's accounts of the overture and the symphony too. The dramatic junctures were measured and temperate, rarely sudden: he was more concerned to make the

orchestra sing. From top to bottom, the orchestral textures permitted voices to rise out and be heard - and not only Roy Carter's oboe, which was a precious ornament in all the music. The balance was a continuous marvel: Davis's experience and the LSO's expertise combined to illuminate everything.

One would not have minded some sharper drama in the First Symphony, which was almost too complete, but he was a young man when he began it, whereas Sir Colin turns 70 this year. He gave us a long, judicious view of a turbulent work, not a dramatic re-enactment. But that had its own mature rewards.

David Murray

Remaining Brahms concerts at the Barbican, and St. Giles' Cripplegate, on March 13 and 16.

## INTERNATIONAL ARTS GUIDE

### AMSTERDAM

**CONCERT**  
Concertgebouw Tel: 31-20-6718345  
● Schönberg Ensemble and De Houdini's perform works by Adams, Ellington, Wall, Evans/Davis and Brubeck; 8pm; Feb 15

**JAZZ & BLUES**  
Bimhuis Tel: 31-20-6233373  
● Art Farmer & Charles McPherson & Trio Rein de Graaff: with trumpeter Art Farmer, alto saxophonist Charles McPherson, pianist Rein de Graaff, double bass-player Kees Serierse and drummer Eric Ineke; 9pm; Feb 13

### BERLIN

**OPERA**  
Deutsche Oper Berlin Tel: 49-30-3438401  
● Der Ring des Nibelungen: Die Walküre; by Wagner. Conducted by Jiri Kout, performed by the Deutsche Oper Berlin. Soloists include Stig Andersen, Metti Salminen, Robert Hale and Karen

Armstrong; 6pm; Feb 16

### BONN

**OPERA**  
Oper der Stadt Bonn Tel: 49-228-7281  
● Sanson et Delila; by Saint-Saëns. Conducted by Marc Soustrot, performed by the Orchester der Beethovenhalle Bonn and the Oper der Stadt Bonn. Soloists include Lucia Naviglio, Alexei Steblikov and Anoushah Golezorkhi (premiere); 7pm; Feb 16

### DETROIT

**EXHIBITION**  
The Detroit Institute of Arts Tel: 313-833-7963  
● Early 20th-Century German Prints from the Permanent Collection: exhibition featuring prints by artists including Emil Nolde, Erich Heckel, Katha Kollwitz, Otto Mueller and Ludwig Krehner; from Feb 13 to Apr 20

### DRESDEN

**CONCERT**  
Sächsisches Staatsoper Dresden Tel: 49-351-49110  
● Messa di Requiem; by Verdi. Conducted by Giuseppe Sinopoli and performed by the Choir of the Sächsischen Staatsoper Dresden. Soloists include Alessandra Marc, Ulla Sippola and Vincenzo La Scala; 8pm; Feb 13, 14

### DUBLIN

**CONCERT**  
National Concert Hall Tel:

353-1-6711888  
● José Miguel Moreno: the guitarist performs works by da Moraes, de Sarmay, Milan and de Narvaez. Part of Dublin Guitar Week; 1.05pm; to Feb 21

**OPERA**  
National Concert Hall Tel: 353-1-6711888  
● Il Trovatore; by Verdi. Conducted by Noel Davies and performed by Lyric Opera Productions. Soloists include Khosrov Mahsoori, Sarah Sweetest, Linda Hibberd and Irakli Grigalashvili; 8pm; Feb 13

### HAMBURG

**CONCERT**  
Musikhalle Hamburg Tel: 49-40-346920  
● NDR-Sinfonieorchester: with conductor Herbert Blomstedt and violinist David Garrett perform works by Mendelssohn and Beethoven; 8pm; Feb 16 (11am), 17

### LONDON

**CONCERT**  
Queen Elizabeth Hall Tel: 44-171-9210600  
● George Winston: the pianist performs a musical tribute to the seasons; 7.45pm; Feb 13

**EXHIBITION**  
Concourse Gallery, The Barbican Tel: 44-171-6388691  
● Dreamings - Tjukurpa Aboriginal Art of the Western Desert: exhibition featuring 34 aboriginal artists. The paintings derive from ancient art forms of

sand mosaics, ceremonial body decoration, headpieces and ephemera; to Feb 18

### JAZZ & BLUES

Purcell Room Tel: 44-171-9504242  
● A Tribute to Fats Waller: soloists include pianist Keith Nichols, bass player Peter Morgan, drummer Laurie Chescoe, guitarist Jim Douglas, saxophonist John Barnes and trombonist Roy Williams; 8pm; Feb 14

### THEATRE

Wyndham's Theatre Tel: 44-171-3691736  
● Art by Reza. Directed by Matthew Warchus (in English). The cast includes Albert Finney, Tom Courtenay and Kan Stott; Tue-Sat 8pm, Sun 5pm, Wed 4pm, Sat also 5pm; to Oct 4 (Not Mon)

### LOS ANGELES

**EXHIBITION**  
MOCA at California Plaza Tel: 1-213-625-6222  
● Ellsworth Kelly: A Retrospective: a complete survey of the artist's paintings and sculptures, spanning five decades, beginning in the late 1940s when Kelly first began to formulate the reductive visual language which he has continued to develop throughout his career. With about 80 paintings, 20 sculptures and 100 works on paper and photographs, the exhibition offers a comprehensive view of the relationships among Kelly's bodies of work in various

media and highlights his contributions to 20th century art; from Feb 16 to May 18

### MONTREAL

**EXHIBITION**  
Montreal Museum of Fine Arts Tel: 1-514-285-1600  
● Joe Fafard - The Bronze Years: a hundred figurative sculptures executed by Canadian artist Joe Fafard between 1983 and 1995 show the evolution of the artist's work after he turned from ceramics to master bronze and its patinas; to Feb 16

### NEW YORK

**EXHIBITION**  
Solomon R. Guggenheim Museum Tel: 1-212-423-3600  
● Rose is a Rose is a Rose: Gender Performance in Photography: exhibition examining the ways in which identity is theatrically constructed in photography, both through performance for the camera and technical manipulation of the image. The works range from Man Ray's 1921 portrait of Marcel Duchamp as his feminine alter-ego Rose Sélavy to the self-portraits and computer-generated images of contemporary artists; to Apr 27 The Metropolitan Museum of Art Tel: 1-212-879-5500  
● Domenico Tiepolo: Drawings, Prints and Paintings in The Metropolitan Museum of Art: the son and collaborator of Giambattista Tiepolo, Domenico Tiepolo was a gifted artist in his own right and one of the most

appealing draughtsmen of the 18th century. This exhibition features the work of Domenico Tiepolo in the museum's collection, which includes one of the largest concentrations of his drawings in the world; to Apr 27

### PARIS

**CONCERT**  
Maison de Radio France Tel: 33-1 42 30 22 22  
● Orchestre National de Lilla: with conductor Arturo Tamayo and pianist Florent Boffard perform works by Doo, Felsen and Bayer; 5.30pm; Feb 15  
Théâtre du Châtelet Tel: 33-1 42 33 00 00  
● Koninklijk Concertgebouworkest: with conductor Riccardo Chailly perform works by Stravinsky, Rossini, Bartók and R. Strauss; 8pm; Feb 16

**EXHIBITION**  
Musée du Louvre Tel: 33-1 40 20 50 50  
● L'Astronome et Le Géographe de Vermeer, réunis: display marking the reunification of two works by Vermeer for the first time in two centuries: L'Astronome and le Géographe, the latter piece being sent to Paris on loan by the Städel Museum, Frankfurt; to Mar 16

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### WORLD SERVICE

BBC for Europe can be received in western Europe on medium wave 648 kHz (463m)

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CNBC:

08.30

Squawk Box

10.00

European Money Wheel

18.00

Financial Times Business Tonight







## FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL  
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700  
Wednesday February 12 1997

## Competition on the line

A final push is being mounted in the World Trade Organisation this week to conclude by midnight on Saturday an agreement to liberalise trade in basic telecommunications services. The result will have important consequences, both for one of the world's most dynamic industries and for the WTO.

An agreement would underpin the rapid structural change under way in the industry in two main ways. First, it would help speed up liberalisation. Since the first round of negotiations broke down last April, when the US rejected other WTO members' offers as inadequate, more and better pledges have been tabled. Though some countries are only promising not to reverse existing policies, others are offering to open their markets faster than previously planned.

Secondly, an agreement would create, at least in embryo, a global regulatory framework for telecommunications. Many participants are prepared to subscribe to a set of principles designed to ensure fair competition in their markets. The principles, like countries' liberalisation commitments, would be legally binding and enforceable through WTO dispute settlement procedures.

Clear and effective rules would bring several benefits. As well as favouring pro-competitive behaviour, they could encourage policy convergence and greater predictability in a

business currently subject to differing and uncoordinated national approaches. That could reassure providers of the private capital needed to fund worldwide investments in modern telecommunications.

A successful outcome would also boost the WTO, where sector-by-sector liberalisation talks have so far achieved little. A deal could invigorate separate efforts to reach agreements this year to abolish tariffs on information technology products and open world financial services markets. Conversely, failure this weekend could blight the outlook for these - and other - negotiations.

The opportunities offered by the telecoms negotiations are too valuable to be missed. Whether they are seized will depend heavily on the US. It is being pressed by Congress to drive a hard bargain. But it needs to recognise that many of its WTO partners have moved a long way since April to make a deal possible. Torpedoing an agreement would mean foregoing the progress achieved.

Other countries, notably developing ones, should use the rest of this week further to improve their liberalisation offers. That will not only make a good agreement more likely, it will also be doing a favour to their own economies. They can only benefit from the more efficient telecommunications services which free international competition can help provide.

## Thai medicine

For three years now the Thai government has been battling with a ghost: the ghost of Mexico. The \$199bn (\$2bn) spending cuts agreed by the cabinet yesterday, worth around 2 per cent of gross domestic product, are another attempt to dispel this spirit of crises past. The package is certainly a step in the right direction. But it will be a while before investors take the country off the list of markets to watch.

Thailand is not Mexico. There are some important similarities between Thailand's economic problems and those which Mexico faced in 1995: notably, a ballooning current account deficit, rising levels of short-term foreign debt and a highly fragile banking system. But the combination is not yet as explosive as it was in pre-crisis Mexico.

That Thailand has still been paying a price for its apparent vulnerability - in the form of a sharp decline in foreign capital inflows and sharply higher interest rates - ought to reassure those who fear that Mexican-style crises are bound to recur. In effect, the International Monetary Fund, the international credit agencies and others sounded the alarm about Thailand last autumn with murmurings about the health of the financial system and the size of the trade gap. And rather than delay an adjustment the government has been forced to act.

Yesterday's budget announcement sends two important signals to worried investors. The first is that the government will do everything it can to preserve its 10-year record of delivering a balanced budget. Without the new cuts, Mr Annuay Viravan, the finance minister, would almost certainly have had a fiscal deficit on his hands in 1997. With them, the chances are that the government will once again scrape into balance.

The same cannot be said of the current account deficit, which, for all Mr Viravan's efforts, is unlikely to be much below 7% per cent of GDP in 1997. But investor worries about the country's continued reliance on expensive foreign inflows will be somewhat eased by the second message of yesterday. This is that, even within a potentially unruly coalition, a government minister can promise tough measures and deliver.

With the new budget Mr Viravan can claim to be doing everything in his power to keep the short-term macro-economic situation under control. Long-term stability will be more difficult. The economy has to find ways to work through the mess caused by the property sector collapse and to revive domestic exports. Neither will happen without the private sector showing the same commitment to change as Mr Viravan. Nor will it happen overnight.

## First strike

Yesterday's statement by Mr Ivan Rybkin, secretary of the Russian Security Council, that Moscow should be ready to use its nuclear weapons against a conventional military attack, is worrying. He is proposing a reversal of Mr Mikhail Gorbachev's policy of "no first strike" at a time when Russia cannot be considered to be under any military threat. In fact, it is an indication of two different but disturbing developments.

In the first place, it is confirmation of the confusion over vital policy issues emerging from the Kremlin. Mr Rybkin was fairly rapidly slapped down by President Boris Yeltsin's spokesman, but he simply popped up and confirmed his statement.

Such insubordination comes only days after General Igor Rodionov, the minister of defence, complained that he was unable to get near the Russian president to discuss urgently needed military reforms. And he confirmed what Mr Rybkin's statement implies: that Russia's conventional forces are now in such a parlous state, they could not resist any conventional attack. Since their defeat in Chechnya, they have suffered spontaneous disintegration. Whole units are reported to be deserting.

It is against that background that the current debate over Nato enlargement must be con-

sidered. Russia is a very lame bear, severely weakened and lacking direction. Expansion of the Nato alliance to include the emerging democracies of central and eastern Europe is seen by all sides as further humiliation. Russian resentment of the move should not be underestimated.

It is not that Nato enlargement is a military threat in itself. The allies have already promised that no nuclear weapons would be stationed in the new member states. They would be prepared to give assurances on conventional forces, too. The Russian army has far more important things to worry about than Nato, in particular reforming itself and downsizing drastically. Gen Rodionov and Mr Alexander Lebed, his former colleague and would-be president, know that perfectly well.

Rather, the threat of Nato enlargement to Russia is psychological. That is very difficult for the western allies to respond to, but they must try. To abandon enlargement now would be seen as a betrayal of the new applicants. But the member states must make it clear that their expanded alliance is a different animal from the one which confronted the old Russian bear. It should not be focused on a Russian threat, whatever Mr Rybkin may say, but should be dedicated to preserving stability across the continent.

The decision by Mexico to mark the second anniversary of its traumatic devaluation last month by settling its outstanding debts with the US was full of symbolism.

Clearing the \$12.5bn loan allowed Mr Bill Clinton, the US president, to take credit for his controversial decision two years ago to put together a \$40bn international rescue package for Mexico's tottering economy.

South of the border, the early repayment by the government of President Ernesto Zedillo was greeted with a burst of optimism. The past was being laid to rest and Mexico had a future to look forward to again.

"For the first time ever, our macro-economic projections are more optimistic than those of the government," says Mr Mauricio González, a partner with GEA consultants in Mexico City. "Almost every aspect of the economy will improve this year."

Mr González believes economic growth will accelerate after its estimated 4.5 per cent recovery in 1996; annual inflation will fall from 27.7 per cent in 1996 to around 17.5 per cent by the end of 1997. The strengthening economy will create 800,000 new jobs this year - less than the 1.2m jobs Mexico needs to accommodate new entrants to the labour market every year, but a big improvement over the two barren years since the peso devaluation.

But the country which is emerging after two years of shock therapy and a crippling recession is very different from the Mexico that joined the North American Free Trade Area in January 1994. The triumphalism which accompanied accession to Nafta, and the presumption of an equal partnership with Canada and the US, have vanished along with the jars of American peanut butter on supermarket shelves and the cheap flights to Miami.

Trade between Mexico and the US has soared to an estimated \$150bn a year. But that is because the devaluation of the peso transformed Mexico into a cheap source of manufactured goods, with industrial wages one-tenth of those in the US.

Hunger for foreign capital is also stripping the country of the last vestiges of protectionism. Foreign banks, barred from taking part in the privatisation of Mexico's commercial banks five years ago, are now welcomed as saviours. Since the devaluation they have swarmed over the debilitated financial system and taken control of one-fifth of Mexico's banking assets for just under \$1bn.

When the government deregulated, foreign investment is not far behind. AT&T and MCI are driving competition in the recently opened long-distance telecommunications market; foreign companies will shortly begin building power plants and gas pipelines.

Foreign investors would also have bid for Mexico's 61 petrochemical plants had the government not backtracked on its decision to privatise the industry. Still, private contractors are expected to play an increasing role in the state oil sector, particularly in developing the Burgos gas field in northern Mexico.

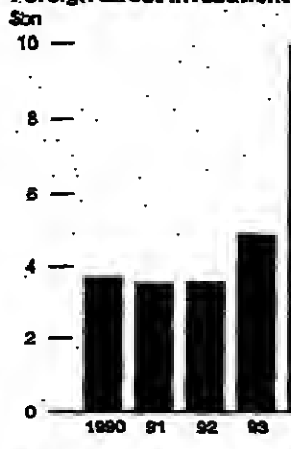
Elsewhere in the economy, the peso crisis has forced a marked shift in the patterns of ownership and control.

## Legacy of shock therapy

The Mexican economy has been transformed by the events that followed the traumatic peso devaluation, says Leslie Crawford

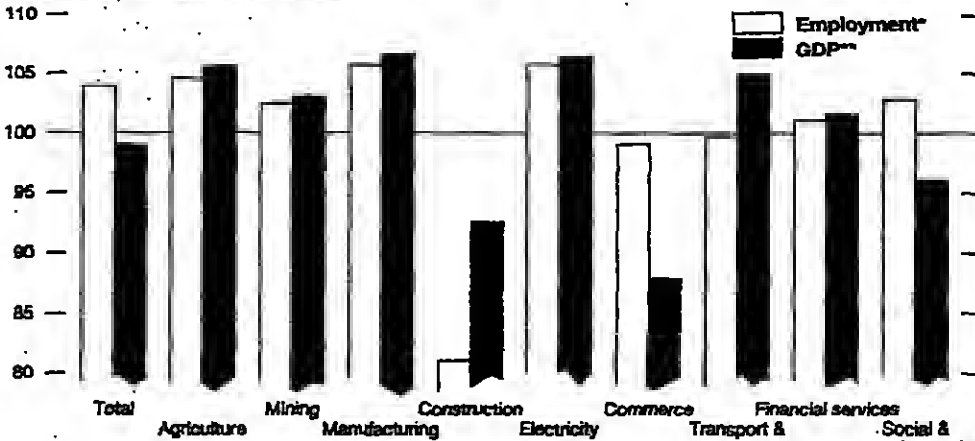
## Mexico: a healthier outlook

Foreign direct investment



Employment and GDP by sector, third quarter 1996

As % of level in the same period of 1994



Source: CIA based on INEGI and Mexican Social Security Institute

Trade balance

	Total	Exports	Imports	Total	Exports	Imports
	\$bn	Maquiladora	Others	\$bn	Maquiladora	Others
1991	42.88	15.83	27.05	48.97	11.78	37.19
1992	46.20	18.58	27.62	82.13	13.94	68.19
1993	61.29	21.35	39.94	88.37	18.44	69.93
1994	60.86	26.27	34.59	70.35	20.47	49.88
1995	72.44	31.10	41.34	72.45	26.18	46.27
1996	95.93	38.53	57.40	89.64	n.a.	n.a.

Source: Mexican Ministry of Economy

"Three years ago, foreigners came bumbly to Mexico, content to be the minority partner in a Mexican venture," says Mr Rogelio Ramírez de la O, director of Ecanal economic consultants in Mexico City. "Today, they want full control."

Investment-starved Mexican companies are increasingly accepting "strategic foreign partners" - the standard euphemism for selling out to a multinational. Last November, for example, Bell Atlantic of the US took over Telscel, a poorly managed cellular telephone company, while Archer Daniels Midland took a 23 per cent stake in Masaseca, the Mexican tortilla maker.

Each investment has brought hundreds of millions of dollars into the country, making Mexico a more open economy today than at any time in its history.

Such openness, however, makes the country vulnerable to external shocks. "A rise in US interest rates, or a prolonged fall in US stock prices, could wipe out much of the optimism which is sustaining the Mexican economy today," warns Mr González of GEA.

The most dramatic change has taken place in Mexico's external sector. Exports have doubled in less than five years to \$36.9bn pesos in 1996.

Most of this growth has taken

place since the peso devaluation, as manufacturers sought foreign buyers for goods they could no longer sell at home. Bancomext, the government's export promotion bank, estimates there are 31,000 Mexican companies directly involved in export activities today, compared with 15,000 companies three years ago.

"Mexico's economic recovery has been driven by the export sector," Mr González says. "Unfortunately, this recovery has been uneven."

The peso crisis accentuated the divide between Mexico's modern, export-oriented economy, which now accounts for almost 30 per cent of national output, and the deeply depressed local economy, which plummeted by 15 per cent during the 1995 recession and only recovered an estimated 1 per cent of lost output in 1996.

Mr González, like most Mexican economists, worries about the poor linkages between the dynamic export sector and a backward local economy which makes Mexico vulnerable in two ways: "Our economy has only a limited ability to substitute imports," he explains.

"Export industries are over-dependent on imported inputs, while imports of consumer goods tend to surge as soon as there is a modest recovery in real incomes." Last year's incipient

economic recovery produced a 23.6 per cent surge in Mexico's import bill.

"We have a problem," says Mr Guillermo Ortiz, finance minister, "in that our small and medium-sized companies are plagued by bad management and low productivity."

Mr Ortiz believes technical assistance provided by state development banks, universities and business councils will begin to remedy these shortcomings. "Our aim is to develop a strong nucleus of small businesses which are integrated into bigger production chains."

The government, through Bancomext, is trying to persuade large exporters to increase local sourcing, particularly within the maquiladora (in-bond) industry on the US border, which draws less than 3 per cent of its inputs from within Mexico. Mr Enrique Vilatela, Bancomext's managing director, says he is combing the country "town by town" to identify companies which can be incorporated into Mexico's export effort.

However, Mr Vilatela is unlikely to find many candidates to Chiapas, Oaxaca or Guerrero, southern states which have been left behind as the rest of the country races to integrate itself with the US. The gap between Mexico's industrial north and

more backward south has widened with the concentration of resources in the dollar economy.

According to a study by the Technological Institute of Monterrey, average labour wages in the northern state of Nuevo León are three times the level in Chiapas, a state which borders Guatemala. Per capita consumption in Baja California, another northern state, is five times higher than in Oaxaca, 3,000km further south.

Life expectancy is 20 years higher in northern Mexico than it is in the south. One-quarter of the population is illiterate in southern Mexico, compared with less than 6 per cent of the population on the US border. Not surprisingly, the two guerrilla uprisings that have shaken Mexico since 1994 have appeared in Chiapas and Guerrero.

"We must avoid the geographic polarisation of the country," says Mr Ortiz, who places great store by the development of the south's natural resources, particularly the oil, timber and hydro-electricity.

Even within regions, inequalities are growing: real incomes have lost one-fifth of their purchasing power since the devaluation, while more than 50 per cent of urban families subsist on less than two minimum wages - 52 pesos, or \$6.50, a day in total. A national health service surgeon earns little more than \$300 a month. Only the very rich, with dollar accounts in Caribbean tax havens, have been able to withstand the double blow of rapid peso depreciation and high inflation.

The squeeze on incomes is unlikely to last. A surge in wage demands - Mexico's labour movement is too subservient to protest. But it is fuelling a smouldering popular anger which some economists fear could explode without warning. "Despite all the government debt relief schemes introduced since the crisis," says Mr Ramírez de la O of Ecanal economic consultants, "many Mexican families have lost their savings, their cars, and may well lose their homes."

Bank lawyers confirm this predicament: the number of repossession actions has risen 100-fold to an estimated 400,000 lawsuits since the start of the crisis. Fortunately for lapsed mortgage debtors, law enforcement in Mexico is both slow and inefficient. The threat of eviction, however, has done little to alleviate the anxiety most Mexicans still harbour about their economic future.

"There is still a big disparity between the optimism of the government's economic pronouncements and the everyday struggle of Mexican families to make ends meet," says Mr González. He believes it will be a long time before Mexicans begin to feel an improvement in their personal finances, as wage restraint will continue to play a key role in keeping inflation in check.

Mr Ortiz promises the recovery will broaden this year, and that the benefits of a healthier economy will be spread more evenly. The challenge, he says, is to lay the foundations for much higher, sustainable growth rates in 1998 and beyond. By then, he hopes the peso debacle will be only a bad memory, from which a few useful lessons were drawn.

## OBSERVER

## Dow Jones' wall of steel

A trio of well-known chairman has been put up for election to the board of Dow Jones, owner of the US's daily business bible, the Wall Street Journal. But if they imagine this will assure a degree of special consideration for them or their companies in the WSJ, they should think again.

Of the three, only William Steere of Pfizer has enjoyed a smooth ride through its financial pages; by general consent, Pfizer has been the outstanding performer among US pharmaceutical companies in the 1990s, and is now pushing for a place among the country's 10 most valuable corporations.

The others - Harvey Golub of American Express and Frank Newman of Bankers Trust - are both turnaround artists who still find big question marks hanging over the futures of their respective companies. Both are also frequently talked of on Wall Street as takeover bait.

Nor will a seat on the Dow Jones board necessarily help their public profiles. Rand Araskog, another Dow Jones director and the chairman of ITT, has just been hit by a hostile bid from Hilton. The Journal's verdict was that while Araskog "has always been his

own man", Wall Street has lost faith in his management.

Another Dow Jones director to have found little comfort in the Journal's columns is Carlos Salinas de Gortari, the former Mexican president. His arrival on the Dow Jones board in 1994 seemed to put the finishing touch to a glittering international reputation. But just months later, a devaluation and business scandal drove the former president into exile.

Since then, he will have read much in the WSJ about the affairs of his brother, Raúl, who currently resides in a Mexican prison. Salinas is not standing for re-election to the Dow Jones board in April.

## Spanish sparkler

Since the centre-right came to power nine months ago in Spain, successful applicants for top jobs have either had to be stockbrokers, merchant bankers or top businessmen. If they were close friends of José María Aznar, the prime minister (as is Telefónica supremo Juan Villalonga), or of economy minister Rodrigo Rato (as is Alfonso Cortina, chairman of the energy group Repsol), then so much the better.

So the appointment of Rodolfo Martín Villa to head Endesa, the government-controlled electricity group and the

country's plum corporate post, comes as a bit of a shock.

A singular survivor of Franco's political bureaucracy - he ran the dictatorship's student union in the 1960s - Martín Villa is every Spaniard's idea of a political patriarch. As interior minister in the 1970s, he was busy steering Spain's transition to democracy when Aznar and his buddies were barely out of school. Nobody would cast him as a slick financier bristling with ideas about regulatory issues and privatisation procedures.

Local wags say that by handing Endesa to Martín Villa, Aznar has, for once, put political expediency ahead of management expertise. The veteran politician was the only figure left in the governing Popular party with sufficient gravitas publicly to challenge Aznar on policies that seriously trouble disband Spanish conservatives. Solution? Persuade him to get out of politics - Martín Villa gives up being an MP - by making an offer difficult to refuse.

## Enough's enough

If only other US companies would pay heed to Gerald Levin, boss of Time Warner.

Corporate America is in the grip of a frenzy of mergers and demergers of historical magnitude. Indeed, Time Warner

is itself the result of one of the biggest mergers of the lot, and has only just absorbed Ted Turner's entertainment group.

Yesterday, though, Levin called a halt to the wheeling and dealing. "Time Warner is now strategically complete," he said. "There are still plenty of people who think the company is a work in progress. Wall Street expects it to shed its cable TV systems to get out from beneath a mountain of debt."

But, for the sake of sanity - if not to thin the wallets of a few lawyers - maybe Levin's words should become the new rallying cry for corporate America.

## Playing away

Judging by his performance in London yesterday, Peru's President Alberto Fujimori is one of the world's most loquacious and accessible heads of state.

It's different back home, where he's renowned for a hermit-like inscrutability. Peruvian journalists have long complained that he keeps his most important announcements for outside the country, while domestic scoops are reserved for the *chicos*, a gaggle of uncritical female TV reporters who accompany Fujimori on all his trips. Lima's foreign hacks haven't been granted an audience for three years.

## Financial Times

## 100 years ago

**A Mountain Of Asbestos**  
At the end of last October we published an article dealing with a "mountain of asbestos" at Danville, midway between Montreal and Quebec, which was of unique formation, inasmuch as the fibre, instead of being found only in the usual form of layers, permeated the whole hill, and even what used to be regarded as dross was available for the production of a valuable commercial product called "asbestos," in which the shorter fibres are utilised. We announced that it was proposed to form a company to work this extraordinary property. The public ought to derive a considerable benefit from this new enterprise owing to the inevitable cheapening which it will effect.

## 50 years ago

**Happy Switzerland**  
There can be little doubt that, from an economic point of view, Switzerland is to-day the happiest country in Europe. She actually has to defend herself against the flood of unwanted wealth thrust upon her. Her gold and foreign exchange reserve has nearly doubled since 1933. Viewed from London, the U.S. dollar is a "hard" and "scarce" currency. Viewed from Switzerland, it is anything but hard and scarce.



## Thai cabinet approves budget cuts of \$2bn

By William Barnes in Bangkok

Mr Amnuay Viravan, Thailand's finance minister, yesterday won cabinet approval for \$2bn in budget cuts over the next two years in a bid to reverse the country's worst economic performance in a decade.

He slashed infrastructure spending in an effort to maintain the country's traditionally balanced budget and dispel worries that the country's economic slowdown could force a devaluation of the baht.

"My credibility is at stake. I know I can cut it [the budget] and you'd better believe it," Mr Amnuay said, as he announced details of cuts totalling about 6 per cent of the national budget.

Previous announcements of planned spending cuts have failed to calm Thailand's jittery financial markets, as eye-catching plans to chop politically sensitive military purchases appeared aimed mostly at already defunct schemes. Yesterday, the finance minister

### Infrastructure spending slashed in bid to halt economic decline

ter cut defence expenditures by 4.1 per cent.

He also axed spending at two of Thailand's most politically important and lucrative ministries. The interior ministry's budget was cut by B19.4bn (\$382.3m), or 5.1 per cent, while the communications and transport ministry's budget will be reduced by 6.6 per cent.

State enterprises, not part of the government budget but seen to contribute to Thailand's high current account deficit and level of foreign debt, will be expected to cut their expenditures by B52.3bn. "It is not politically popular but we have to do it even if we may lose a few votes along the way," Mr Amnuay said.

Thailand's central bank said the budget cuts had caused it to reduce its forecast for economic growth this year to 6.8

per cent from 7.1 per cent. But this lower level is considered optimistic by many analysts.

The central bank said the current account deficit would fall to 7.4 per cent of gross domestic product - compared with an earlier projection of 7.9 per cent. The bank said this decline should ease pressure on the baht, which has been under speculative attack by the rising dollar. This pressure has forced the Thai authorities to keep interest rates high despite the slowest growth in more than a decade.

Some of the government savings will come from a delay of some three years in the construction of a \$4bn international airport at Nong Ngu Hao.

In a separate decision, the Thai cabinet endorsed a B12bn plan to immediately expand the existing Don Muang airport. This could force rebuilding on several contracts at the long-delayed Nong Ngu Hao project.

Editorial Comment, Page 11

## UN agency funding withheld by US and Britain

By Leyla Boulton, Environment Correspondent

The US, Britain and Spain are withholding their 1997 contributions to the United Nations Environment Programme after ambassadors from a handful of developing countries blocked attempts to reform it. Senior western officials said yesterday.

Environment ministers meeting at the troubled agency's headquarters in Nairobi had been expected last week to approve long-delayed reforms demanded by its biggest contributors, to save it from political drift and a steady decline in funding.

But Ms Dinah Nichols, director-general at the UK's Department of the Environment, said the meeting ended in acrimony on Friday after ambassadors from India, Bangladesh, and Colombia led last-minute opposition to the proposals.

The reforms, backed by the US, the UK, the European Union, Latin American and several developing nations, would have increased the role of environment ministers in running Unep at the expense of the ambassadors to Kenya who double as permanent representatives at the agency.

But Ms Nichols said the crisis might ultimately bring a faster solution to Unep's problems. "People are not shadow-boxing any more," she said. "The issue of whose Unep it is has been brought into the open. It should be the Unep of governments, not of their officials."

The decision by the US, the UK and Spain to withhold more than \$15m in contributions, accounting for 15 per cent of Unep's annual budget, until reforms are approved, follows a fall in funding by countries dissatisfied with its performance.

"The concern about Unep is that people have been voting with their feet and walking away," said Ms Nichols. "Its management is a shambles."

Ms Eileen Claussen, UN assistant secretary of state for international environmental affairs, said the dispute was "not even a north-south" issue pitting the industrialised world against developing countries. "It was all about bureaucracy, control, and turf."

Responsibility for the meeting's failure could be laid in part at the door of a "small group of ambassadors with a very particular point of view". But she also blamed "mistakes" by the meeting's organisers in failing to stitch together a sufficiently strong consensus among a group of nations whose own disunity was a symptom of Unep's wider lack of purpose.

### THE LEX COLUMN

## Pulling the Levers

Unilever's decision to make a \$5bn exit from its specialty chemicals business says much about the confidence of new chairman Mr Niall FitzGerald. Chemicals has been the brightest element of the portfolio in recent years, and was supposedly key for product development. But chemicals and consumer goods require distinct management skills. The old style Unilever-knows-best approach could have resulted in specialty chemicals getting left behind as the industry consolidates. But the new hard-nosed Unilever is all about focus. It hopes to profit from this consolidation by selling, and profit again from concentrating on its core business.

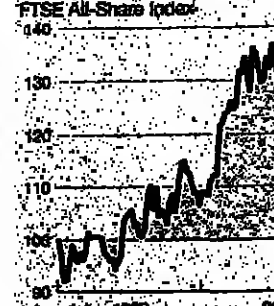
Investors reacted favourably, but they should not get carried away by the rhetoric. The disposals will leave Unilever with around \$3bn of net cash and \$10bn of potential spending power. The group will want to buy consumer goods businesses where it can accelerate sales in emerging markets - so Reckitt & Colman, CPC or Heinz look logical targets. Nonetheless, Mr FitzGerald needs to deliver better returns from acquisitions than he got from chemicals, and that is an enormous challenge.

At least last year's pick-up in profits buys more time. And the rewards for improving performance could be enormous. Procter & Gamble is a more obvious comparison than the UK food sector, and it trades at a 20 per cent higher multiple of enterprise value to operating free cashflow. Mr FitzGerald has thrown down the gauntlet; he is a very long way from winning the contest.

### FTSE Eurotrack 200: 2163.3 (+7.1)

#### Reuters Holdings

Share price relative to the FTSE All-Share Index



Source: Reuters

stocks, particularly where the effect has been more than merely translation of overseas profits. Shares in electronics group Eurotherm fell 2 per cent yesterday when it warned that its exports to continental Europe were suffering.

For investors this is a dilemma. Sterling's strength leaves large swathes of the UK market looking unattractive, just as previous favourites, such as general retailers, have hit a rocky patch. Currency risk, added to racy valuations in the US and poor fundamentals in Japan, means the biggest overseas markets are also unpalatable. As a result, excess liquidity has rushed into those domestic sectors where pleasant earnings surprises are still possible - largely financials and construction. While sterling remains strong, that trend is likely to persist.

### Reuters

Reuters' downbeat statement yesterday was largely due to foreign exchange. Its reported results are likely to be dragged down because overseas profits will be worth less in sterling. Investors should not be too concerned about that; the effect will be largely confined to 1997. More worrying, for a growth stock, is that revenue rose only 6 per cent on an underlying basis in the final quarter of 1996. Low volatility in forex markets, heavy users of Reuters' products, has cut demand.

Elsewhere, the outlook is reasonable. Orders for Reuters' new 3000 information system have got off to a good start and should contribute meaningfully to profits from next year. And Instinet, the group's electronic stockbroker, continues its

rapid expansion. An end to the bull market would, of course, hit Reuters. Investment banks would react by making traders redundant and disconnecting their terminals. Moreover, Reuters still suffers from a poverty of ambition and an embarrassment of riches. It ought to be well placed for the new era of electronic information. But its forays outside its financial markets stronghold have been cautious to a fault. As a result, it is adding to its \$1bn cash pile at the rate of \$200m a year.

That said, after the recent slide, the stock is no longer expensive. Indeed, at 20 times this year's earnings and nine times earnings before interest tax and depreciation, the shares may even be a little cheap.

### Football

Football fans in England are livid that tonight's game against Italy is being shown live only on pay-TV. Critics in the UK claim the audience would be six times as large if shown free on terrestrial TV. It is all highly ironic. The popularity of the match has much to do with the numerous Italian stars adding some sparkle to the UK's Premier League. But the only reason clubs can afford these players in the first place is because of the huge cash infusion satellite TV has brought into the game.

The simple fact is that the rude health of Premier League clubs has everything to do with the influence of non-terrestrial TV. In 1983/4, the BBC/ITV terrestrial monopoly paid the football league \$2.6m for television rights. In the coming four seasons, however, the Premier League will receive an average \$173m a year from TV rights, with £155m of that coming from BSkyB, the satellite provider.

There was a case for the government guaranteeing wider access to showcase events such as the FA Cup and Wimbledon. Beyond this, sports authorities should be allowed to judge for themselves how to balance commercial considerations with the need to maximise exposure for the sports they administer. If they are greedy, they will devalue their own product in the long run. Certainly, there is no role for the European Commission which thinks it should have a voice in these matters. EU citizens are no more entitled to watch big sports events for free than they are to watch Pavarotti or Madonna for free.

## Kremlin chief warns of nuclear response to attack

By Chrystia Freeland in Moscow

Russia's hostility to Nato's planned eastward expansion deepened yesterday when the Kremlin's security chief said Moscow should be ready to respond to an attack by conventional forces.

In a sharp break from the pledge by former president Mikhail Gorbachev that the Soviet Union would never launch a first-strike nuclear attack, Mr Ivan Rybkin, secretary of the security council, made the policy proposal in an interview published yesterday.

"All people should know that in the event of a direct challenge, our response will be fully fledged, and we are to choose the means... including nuclear weapons," Mr Rybkin said. "Of course, we are not speaking of a preventive nuclear strike, but if an aggressor starts a war against us using conventional weapons,

we might respond using nuclear ones."

The comments were swiftly repudiated by Mr Sergei Yastrebinsky, spokesman for President Boris Yeltsin. He said only the president, prime minister or foreign minister were empowered to state Russia's official position on issues of this magnitude.

But a spokesman at the security council said Mr Rybkin stood by his remarks. The aide pointed out that the interview had been published in Rossiyskaya Gazeta, the official organ of the Russian government, suggesting the remarks had received official approval at some level.

Mr Rybkin said a departure from Russia's glasnost-era nuclear policy was necessary in part because of the deterioration of the country's conventional forces.

"We talk about this [the use of nuclear weapons] so that military adventurers do not get tempted by the fact that at

this stage our armed forces are being reformed and do not have the might they used to have," Mr Rybkin said.

His reference to the frailty of Russia's conventional army echoes warnings from the military itself.

Yesterday Mr Igor Rodionov, minister of defence, warned that the Russian army was in a state of collapse comparable only to its condition after the civil war in the 1920s.

Mr Rybkin's fierce position on a nuclear first strike is also part of the mixed messages coming from Moscow as Nato forges ahead with its proposals to admit some eastern European states later this year.

Some Russian leaders have admitted that Nato expansion is inevitable. Others have warned that Russia will assume a more antagonistic attitude towards the west if Nato enlargement takes place.

The debate has drawn growing attention to Mr Yeltsin's physical frailty.

### Lima hostages

Continued from Page 1

Indication that the group is isolated, almost terminal."

Asked about the presidential crisis in Ecuador, the country with which Peru fought a brief border war two years ago, Mr Fujimori said: "We hope that at some moment the government will make clear it wants to continue negotiations over the frontier."

### Sterling continues powerful rise

Continued from Page 1

their profits. Allied Domecq, one of the UK's biggest wines and spirits companies, estimated the high exchange rate could cut £20m off its pre-tax profits. Reuters, the media group, warned shareholders in a statement accompanying its preliminary results that "the strength of sterling would

severely restrict prospects for reported revenue and earnings growth."

Mr Paul Meggs, senior currency economist at Deutsche Morgan Grenfell in London, said sterling's strength and the coming UK election, which must be held by May, made a rate rise unlikely, as it would "fuel a fire" under the pound.

### FT WEATHER GUIDE

#### Europe today

Europe will again be windy with changeable skies. Active low pressure systems will bring cloud, rain and strong winds to an area from France to Russia. Western Europe will have rain. Eastern Europe and Scandinavia will have sleet and snow. There will be strong south-westerly winds reaching near gale force with the possibility of gales in the Channel. Southern Spain and Turkey will be mostly sunny. The interior of Italy will also be sunny, but the area bordering the Tyrrhenian Sea will be mostly cloudy with occasional showers.

#### Five-day forecast

The windy and cloudy conditions over northern and central Europe will slowly move south. A series of fronts will cause Europe to be cloudy and wet. Southern France may have bad weather towards the end of the week.

Warm front Cold front Wind speed in KPH

TODAY'S TEMPERATURES				
Maximum	Beijing	sun 3	Casaca	fair 28
Minimum	Calcutta	show 9	Cardiff	rain 12
	Abu Dhabi	sun 22	Casablanca	sun 17
	Accra	fair 31	Chicago	cloudy 13
	Algiers	sun 19	Cologne	cloudy 13
	Amsterdam	cloudy 12	Dakar	sun 26
	Atlanta	fair 15	Dallas	rain 9
	Bombay	sun 29	Delhi	sun 24
	Buenos Aires	drizz 12	Helsinki	sun 22
	Brussels	fair 25	Hong Kong	sun 27
	Budapest	cloudy 6	Islandia	cloudy 10
	Chengdu	show 4	Jakarta	show 31
	Chongqing	show 4	Karachi	rain 15
	Cairo	fair 17	Kuala Lumpur	sun 27
	Cape Town	fair 22	London	rain 14
			Luxembourg	cloudy 10
			Lyon	show 15
			Madrid	fair 15
			Manila	sun 17
			Moscow	cloudy 15
			Mumbai	sun 27
			Nairobi	cloudy 13
			Nassau	fair 28
			New York	fair 9
			Nice	sun 15
			Nicosia	sun 18
			Oaxaca	cloudy 3
			Paris	drizz 14
			Perth	sun 32
			Prague	show 15
			Rangoon	sun 32
			Reykjavik	show 1
			Rio	fair 32
			Rome	cloudy 15
			S. Francisco	fair 15
			Seoul	fair 1
			Singapore	show 32
			Stockholm	fair 4
			Stuttgart	cloudy 18
			Sydney	rain 28
			Taipei	sun 19
			Tel Aviv	fair 16
			Tokyo	cloudy 9
			Toronto	show 9
			Vancouver	rain 7
			Venice	fair 9
			Vienna	rain 8
			Warsaw	cloudy 9
			Washington	fair 6
			Wellington	rain 19
			Winnipeg	fair 12
			Zurich	cloudy 14

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

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KAZUO NAKAMURA, founder of Kyocera

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FINANCIAL TIMES

# COMPANIES & MARKETS

Wednesday February 12 1997

Week 7

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## IN BRIEF

### Sony in talks with UK label

Sony Music is negotiating a multi-million pound deal with Independent, a new UK record label launched by Mr Andy Macdonald, who signed Paul Weller, Portishead and the Beautiful South. Mr Macdonald, who flew to New York yesterday for a meeting at Sony Music's corporate headquarters, set up Independent last autumn after clashing with PolyGram, the Dutch entertainment group, over its plans to take control of Go! Discs, his old record label. Page 16

**Computer groups' shares soar**  
Shares in Dassault Systèmes soared after the French specialist in computer-aided design and manufacturing reported a 55 per cent advance in net profits from FF221.3m in 1996 to FF342.5m (\$61.3m) in 1996. Meanwhile Cap Gemini, the European computer software and services group, reported a more than five-fold improvement in annual profits, spurred by a surge in business linked to new technologies such as electronic commerce and the Internet. Page 16

**Japanese securities commissions cut**  
A stream of foreign and Japanese securities companies have halved their trading commissions for over-the-counter shares in the past 10 days in response to a similar move in late January by Matsui Securities. The Matsui decision prompted a mini-revolution in the country's hitherto moribund OTC market. Page 17

**Sears pay-out may be postponed**  
Sears is expected to delay a planned \$410m pay-out to disgruntled shareholders after the government's decision to refer the proposed sale of Freeman's, its mail-order business, to the Monopolies and Mergers Commission. Page 19

**Time and Westinghouse outperform**  
Both Time Warner and Westinghouse Electric beat stock market expectations with fourth-quarter results breathing new life into their subdued share prices. However, Wall Street analysts had scaled back their expectations for both companies in recent months amid concerns about the earnings from their media and entertainment businesses. Page 18

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Gedeon Richter	14	Teck Corp	17
General Electric	4	Telmex	17
Heinz	1	Time Warner	16
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### Chief price changes yesterday

FRANKFURT (DM)		Paris (FF)	
Rhône	1556 + 27	Alcatel	10.0 - 1.0
Alcatel	1123 + 29	Geopost	4.3 - 0.75
BMW	718 + 14	Golden Rule	7.25 - 0.85
Dassault	715 + 9	Microvix	11.5 - 1.25
Hamburg-Elect	480 + 9		
Philips	145.5 - 5.5		
Volvo	707 - 8		
NEW YORK (\$)		Tokyo (¥)	
Rhône	38 + 154	Alcatel	1590 + 38
Compaq	2234 + 29	Cap Gemini	510 + 14.2
Enterprise Gye	2114 + 14	Cap Gemini	559 + 20
Ingram Micro	2114 + 14	Cap Gemini	559 + 20
Philips	124 - 14	Cap Gemini	559 + 20
Delta Corp	14 - 3	Cap Gemini	559 + 20
Goldcorp	25% - 24	Cap Gemini	559 + 20
LONDON (pence)		Tokyo (¥)	
Rhône	1380 + 60	Alcatel	92.0 - 1.75
Geopost	5424 + 224	Cap Gemini	91.5 - 2.0
Philips	94 - 27	Cap Gemini	91.5 - 2.0
Cap Gemini	2394 - 294	Cap Gemini	91.5 - 2.0
Philips	35 - 40	Cap Gemini	91.5 - 2.0
TOKYO (¥)		Tokyo (¥)	
Alcatel	10.25 + 1.25	Alcatel	92.0 - 1.75
Cap Gemini	21.5 + 2.0	Cap Gemini	91.5 - 2.0
Cap Gemini		Cap Gemini	91.5 - 2.0

Tokyo closed, New York and Toronto prices at 12.30pm.

## Timmer quits as Philips director

Ex-president leaves board four months after handover

By Gordon Cramb in Amsterdam

Mr Jan Timmer, who led Philips from near bankruptcy five years ago, yesterday quit as a non-executive director of the Dutch electronics group less than four months after handing over to Mr Cor Boonstra, its tough new president. Philips' supervisory board, to which Mr Timmer was elevated last October, said it "regrets this decision, but respects the personal considerations which have led to his departure". The company refused to elaborate on these reasons, but an official said it was not thought Mr Timmer was relinquishing other similar posts such as those at Royal Dutch/Shell.

Since he took office, Mr Boonstra has spent much time undoing the diversification strategy of his predecessor. That has come in an effort to shed non-performing parts of the Philips empire, or what he has bluntly called the "bleeders". After record profits in 1995, the group has been hit by



Sudden departure: there were persistent reports suggesting unease between Jan Timmer and his successor over strategy. PHILIPS

a squeeze on profit margins - on television sets and other consumer products, as well as in its semiconductor division. Mr Timmer brought Mr Boonstra in as vice-president two-and-a-half years ago and designated the former executive of the Sara Lee foods group as his successor - the group's first outside president. But soon after the handover, reports emerged suggesting

unease between the two as one pet Timmer project after the other was felled. Last month, the new chief described the structure of the organisation he had inherited as "like a plate of spaghetti". A team from McKinsey, the management consultants, is scrutinising numerous ventures scattered among the company's roughly 100 business units. After deep cuts in

consumer audio-visual operations and at its Eindhoven headquarters, analysts expect further large write-offs when the group unveils its 1996 results tomorrow. Mr Boonstra's moves include bailing out the end for Philips technology in making liquid crystal displays used in laptop computers, putting the business into a joint venture with Hosiden of Japan. From April,

he is shutting Super Club, a chain selling video cassettes, compact discs and computer games. The plug was also pulled on a planned cable TV alliance for the Dutch market. A separate cable venture in which Philips was a minority participant ended in further indignity for Mr Timmer in December when it was taken off the air after only four months.

## Fannie Mae bond boosts sterling

By Edward Luce

A leading US institution yesterday launched the first global bond to be denominated in sterling, boosting the currency's reputation as a "safe haven". Investors said the choice by Fannie Mae, the US Federal National Mortgage Association, reflected sterling's growing strength against other European currencies.

Sterling has appreciated by 15 per cent against its trading partners on a trade-weighted basis since August. The bond, to be priced today, is managed by BZW and Merrill Lynch. "This is a significant development which reflects the fact that sterling is now stronger than most other European currencies," said Mr Nicholas Medd, director, syndicate, at HSBC Markets. "It also reflects the fact that gilts [UK government bonds] are now the highest yielding

bonds in the G7 group of countries."

Like a eurobond, a global bond is priced against the benchmark government bond of the currency in which it is issued - usually US dollars but also yen and D-Marks. Unlike eurobonds, which are confined to Europe, global bonds are issued simultaneously in the US, Asia and Europe.

The Fannie Mae bond will yield 10 basis points (a basis point is a hundredth of a percentage point) above 7 per cent UK government gilts and will mature in June 2002. Fannie Mae has previously issued D-Mark and yen-denominated global bonds.

Sterling has recently attracted several issues, with £7bn issued in eurosterling bonds in January alone. This compares with £30bn in 1996 and £16bn in 1995 as a whole.

Capital Markets, Page 22

## Reuters says pound's strength may hit trading

By Christopher Price

Concerns over the strength of sterling and the introduction of new products prompted Reuters to issue a cautious outlook on trading with its annual results yesterday. The guarded statement helped depress shares in the financial information and media group by 16p to 63p.

Reuters said its Globex futures trading system was likely to close in 1998 following the decision by one of its two participants to pull out. Group pre-tax profits rose 17 per cent in 1996 to £701m (£1.1bn) on revenue 8 per cent higher at £2.91bn. The growth was driven mainly by the continuing strong demand for Reuters' instant agency dealing business and other transaction products.

However, Mr Peter Job, chief executive, warned that it would be "difficult for the group to better the underlying

revenue growth rate" in 1997. This was because the company was attempting to increase the installation rate for the new 3000 series of dealing and information products. The company, which derives 85 per cent of revenues from overseas, warned about the adverse effect of the continuing high level of sterling.

Using year-end exchange rates, not an annual average, Reuters' operating profits would have been reduced by £100m to £541m (compared with £551m in 1995), and revenue by £230m. The group's cash pile stood at £1.05bn at the year-end. Mr Robert Rowley, finance director, said options for returning some of the cash to shareholders were being examined. The company's plan last year to give investors £513m via special dividend shares was halted after the UK government scrapped related tax benefits. Revenues from informa-

tion products rose 3 per cent to £1.89bn. Mr Rowley said a dull foreign exchange market had been the chief cause of the largely flat performance. Transaction products increased by 21 per cent to £813m, with instant revenues rising by 43 per cent. Reuters said the closure of Globex, which made a marginal contribution to group sales, would not have an impact on this group's results.

Mr Rowley said sales of the 3000 series, launched six months ago as a more sophisticated version of the 2000 range, were "reasonable" at 14,700. However, only 2,500 had been installed. There are 200,000 Reuters 2000 terminal users who will be upgraded to the 3000 system. Capital expenditure of £872m would probably be matched this year, with the 3000 roll-out taking a large proportion.

Lex, Page 12

### Barry Riley

## Trouble for trackers as median beats average



Have the active fund managers, those £1m-a-year prima donnas, at last managed to hit back at their tormentors, the passive index trackers? At the turn of the year, word got around that the trackers - a bunch, by all accounts, of unglamorous low-paid nerds - had finally been consigned to the bottom of the performance league table, at any rate in the UK stock market.

Certainly the trackers had been watching the market trends anxiously through 1996. Usually the active fund managers as a group underperform the All-Share Index, typically by 30 basis points (0.3 per cent) a year. This margin roughly reflects the costs of active management, and its persistence is a triumph for the much-derided efficient markets hypothesis.

By June, though, the WM Universe was beating the All-Share Index total return by 70 basis points. Outperformance by smaller companies, benefiting some of the more aggressive pension fund managers, was an important factor.

And according to Barclays Global Investors, the market leader in passive management, the impact of big new issues such as Orange and Railtrack was also significant. "This was because they outperformed in the intervals between flotation and inclusion in the index. Another reason, however, appears to have been stock

selection among the blue chips. Whether this was the result of good judgment or simply the inverse of some underperformance by foreign investors (who now hold about 15 per cent of the UK equity market) is hard to say. For instance, UK pension funds hold a disproportionate amount of Shell Transport, whereas US pension funds hold Royal Dutch instead.

At any rate, to the trackers' great relief, much of the

The active manager's ability to hedge currencies can give a useful advantage denied to the completely passive manager

January-June outperformance was reversed later in the year, in particular because of relative smallcap weakness. With about 40 per cent of the calendar year results in, WM is showing a weighted average return on UK equities of 16.7 per cent, against the All-Share return of 16.8 per cent.

That is not the whole story, however. The WM median fund return is up at 17.7 per cent and the rival Caps measurement service is showing a median of 17.8 per cent. It looks as though the smaller, more nimble funds did well in 1996 but the big funds lagged - though surely not because they are the ones that tend to be indexed?

It does not appear to have been a very good year for global indexers either. WM's

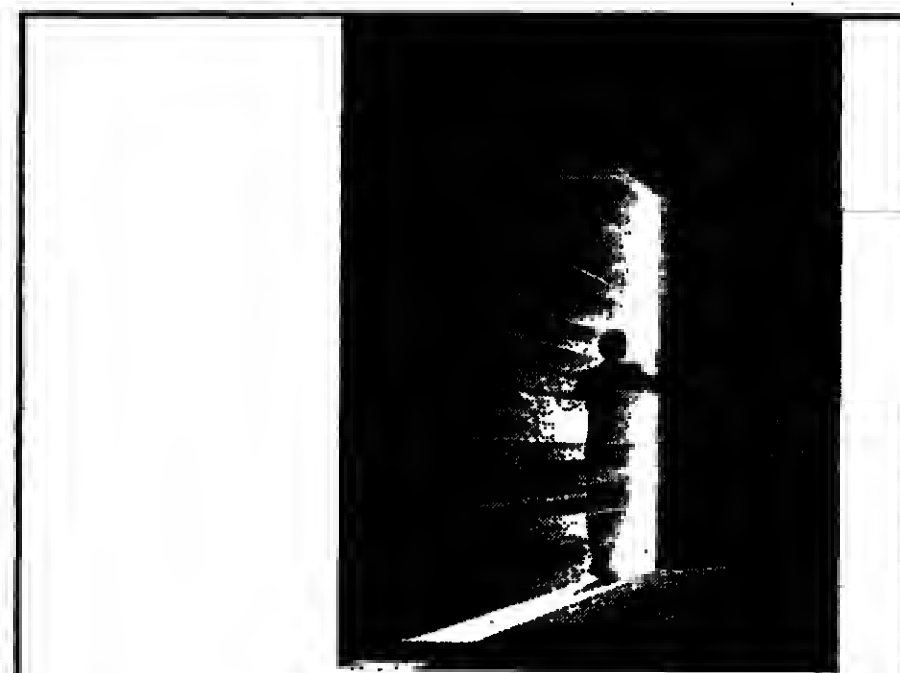
universe of tax exempt US client funds benchmarked to the MSCI EAFE (basically, world excluding north America) index outperformed dramatically in 1996. The median fund beat the index return of 6.4 per cent, in dollars, by as much as 600 basis points.

Underweighting Japan, and especially Japanese banks, has been an easy route to success for the global active managers. Otherwise they did well in the Netherlands, Hong Kong and Sweden, where they tended to be overweight.

No wonder the global indexers have often turned to either active or consensus country asset allocation in order to reduce their risks against the active peer group. Quite apart from stock market judgments, the active manager's ability to hedge currencies - notably, in 1996, the yen - can give a useful advantage denied to the completely passive manager.

Coming back to the British pension funds, they also appear to have done well in Asia and Europe, sufficiently so to offset the mistake of drastically underweighting US equities. Their overseas return was about 3 per cent against 2.6 per cent on the World ex UK Index in sterling. In the US, their shrunken portfolios matched the index return, not a bad out-turn given that they had underperformed (on average by 110 basis points annually) in nine out of the 10 previous years.

But the index-trackers can certainly survive a poor year. The law of averages is still on their side, and prima donnas can have a short shelf-life.



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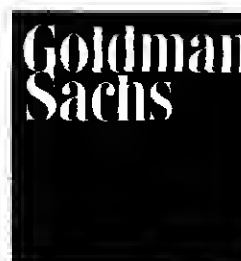
Goldman Sachs sole or lead managed 36 convertible transactions in 1996.

<b>\$252,500,000</b> <b>A-L</b> Alusuisse-Lonza Finance Limited 2% Guaranteed Convertible Bonds due 2001	<b>\$125,000,000</b>  American Medical Response, Inc. 5% Convertible Subordinated Notes due February 1, 2001	<b>\$661,250,000</b>  Apple Computer, Inc. 0% Convertible Subordinated Notes due June 1, 2001	<b>\$250,000,000</b>  Ashanti Capital Limited 5 1/2% Exchangeable Guaranteed Notes due March 15, 2003	<b>FF1,250,000,000</b>  AXA 0% FF Senior Convertible Bonds due January 1, 2001	<b>\$350,000,000</b>  Banco Nacional de México, S.A. 11% Subordinated Exchangeable Capital Debentures due 2003
<b>DM345,000,000</b>  BGB Finance (Ireland) PLC 3.25% Guaranteed Notes due 2001	<b>\$115,000,000</b>  BROADBAND TECHNOLOGIES, INC. 5% Convertible Subordinated Notes due May 15, 2001	<b>\$300,000,000</b>  Cirrus Logic, Inc. 0% Convertible Subordinated Notes due December 15, 2003	<b>\$230,000,000</b>  Continental Airlines 0 1/4% Convertible Subordinated Notes due April 15, 2000	<b>\$126,500,000</b>  Cyrix Corporation 5 1/4% Convertible Subordinated Notes due June 1, 2001	<b>DM1,200,000,000</b> <b>DAIMLERBENZ</b> Daimler-Benz Capital (Luxembourg) AG 4 1/4% Deutsche Mark Bearer Notes due 2003 with participating Warrants (N.E.W.S.)
<b>\$112,700,000</b>  Dole Food Automatic Common Exchange Facility Trust \$2.75 Trust Automatic Common Exchange Securities (TRACES™)	<b>\$150,000,000</b>  FDC Capital (Cayman Islands) Ltd. 2.50% Guaranteed Convertible Bonds due 2000 independently guaranteed by and convertible into shares of Filinvest Development Corporation	<b>\$100,000,000</b>  FILINVEST FILI Capital (Cayman Islands) Ltd. Step-Up Premium Redemption (S.U.P.R.) Guaranteed Convertible Bonds due 2002	<b>\$125,000,000</b>  Great Eagle Finance (Cayman) Limited 3.25% Convertible Guaranteed Bonds due 2001	<b>£110,000,000</b>  Hammerson Hammerson plc 6 1/4% Subordinated Convertible Bonds due June 12, 2000	<b>\$550,000,000</b>  Host Marriott Corporation Host Marriott Financial Trust 6.75% Convertible Quarterly Income Preferred Securities (Convertible QUITPS™ Securities)
<b>\$100,000,000</b>  Imax Corporation 5 1/4% Convertible Subordinated Notes due April 1, 2003	<b>\$2,120,000,000</b>  Republic of Italy 5% Privatization Exchangeable Notes (US\$ PENs™) due 2001 6 1/2% Privatization Exchangeable Notes (Lira PENs™) due 2001	<b>\$115,000,000</b>  Mahindra & Mahindra Limited 5% Convertible Notes due July 9, 2001	<b>\$1,000,000,000</b>  Microsoft Corporation 2 1/4% Convertible Exchangeable Principal-Protected Preferred Shares	<b>\$143,750,000</b>  National Data Corporation 5% Convertible Subordinated Notes due November 1, 2003	<b>\$86,250,000</b>  NORTH AMERICAN VACCINE North American Vaccine, Inc. 6.50% Convertible Subordinated Notes due May 1, 2003
<b>\$115,000,000</b>  Rogo Producing Company 5 1/4% Convertible Subordinated Notes due June 15, 2000	<b>\$143,750,000</b>  QUINTILES 4.25% Convertible Subordinated Notes due May 31, 2000	<b>\$276,000,000</b>  Saks Fifth Avenue Saks Holdings, Inc. 5 1/4% Convertible Subordinated Notes due September 15, 2000	<b>\$65,000,000</b>  Samsung Display Devices Co., Ltd. 0.25% Convertible Bonds due March 12, 2000	<b>\$149,500,000</b>  S-F-X Broadcasting, Inc. 0% Series D Cumulative Convertible Exchangeable Preferred Stock due May 31, 2007	<b>\$149,500,000</b>  SPORTS ILLUSTRATED 5 1/4% Convertible Subordinated Notes due September 15, 2001
<b>¥100,000,000,000</b>  Sumitomo Bank International Finance N.V. 4% Mandatory Exchangeable Subordinated Guaranteed Notes due 2001	<b>\$104,600,000</b>  TPI Polene Public Company Limited 2.75% Convertible Bonds due 2000	<b>\$150,000,000</b>  United Waste United Waste Systems, Inc. 4 1/4% Convertible Subordinated Notes due June 1, 2001	<b>\$69,000,000</b>  UroMed 0% Convertible Subordinated Notes due October 15, 2003	<b>\$57,500,000</b>  Ventritex 5 1/4% Convertible Subordinated Notes due August 15, 2001	<b>\$40,000,000</b>  WILLIAMS-SONOMA Williams-Sonoma, Inc. 5 1/4% Convertible Subordinated Notes due April 15, 2003

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## COMPANIES AND FINANCE: ASIA-PACIFIC

## Matsui move sparks wave of fee-cutting

By Gwen Robinson in Tokyo

A stream of foreign and Japanese securities companies have halved their trading commissions for over-the-counter shares in the past 10 days in response to a similar move, announced in late January, by Matsui Securities.

Mr Michio Matsui, president of Matsui, a small independent broker, took the securities industry and the finance ministry by surprise when he announced the cut in commissions.

The unilateral decision prompted a mini-revolution in the country's hitherto moribund OTC market, in what analysts describe as Japan's first wave of discount broking.

The finance ministry has been studying proposals to liberalise fixed commissions on trading at Japan's stock exchanges, but is not expected to make a decision until next year.

Fixed rates of commission apply to all trades up to ¥10m (\$8.1m) in value on Japan's stock exchanges, but fees for trading in OTC stocks can be set freely. Traditionally, however, uniform commission levels have been set for trading of OTC stocks and convertible bonds.

Within hours of Mr Matsui's announcement, Paribas Capital Markets said it would match the cuts and implement them ahead of Matsui Securities, which had said the discount would apply from early March. Credit Lyonnais Securities and Nippon Securities,

an Osaka-based broker, followed suit.

The OTC market, which tracked the Tokyo stock market's plunge from late last year, has aurged in response.

Following Mr Matsui's announcement on January 30, volume climbed 26 per cent to 9m shares on January 31 and the benchmark Nikkei OTC index jumped nearly 7 per cent to close at 1280.34 on February 4.

Analysts expect the move to speed deregulation of the securities industry. They warn, however, that full liberalisation of stock-broking commissions must be accompanied by other reforms to allow brokers to diversify their sources of income.

Japan's 280 securities houses have traditionally relied on high commission fees for much of their profit.

Mr Masashi Suzuki, chairman of the securities dealers association, estimated that for smaller brokers, commissions account for as much as 80 to 100 per cent of earnings, while for the big four Japanese brokers they represent about 46 per cent.

Expansion of the OTC market, however, was highly desirable, he said.

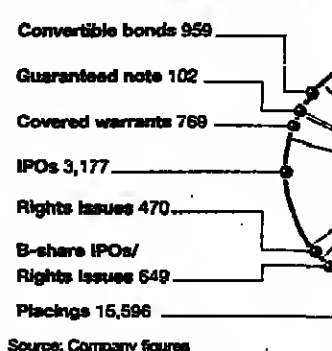
"The industry wants to develop the OTC market further, so it becomes something like Nasdaq and actually competes with the Tokyo Stock Exchange. Up to now, it has been viewed as a supplementary market, yet it already trades some 780 companies, and every year there are additional ones," Mr Suzuki said.

## Shift to fixed income pays off at Peregrine

Almost 80 per cent of the investment bank's turnover is now derived from Asian debt markets

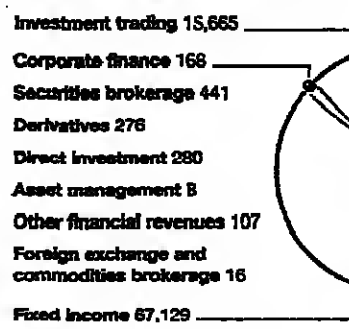
## Peregrine in full flight

Number of transactions and amounts raised, 1995 (HK\$m)

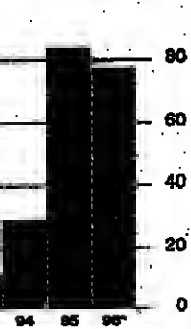


Source: Company figures

Contribution of business activities to turnover, 1995 (HK\$m)



Turnover (HK\$m)



\* Interim results for six months ended June 30

Philip Tose, co-founder and chairman of Peregrine Investments, no longer has on his desk a dedicated line to Mr Li Ka-shing, Hong Kong's most powerful tycoon. That says much for the evolution of the pan-Asian investment bank.

Peregrine has been wary of remaining over-reliant on those like Mr Li, who backed the company at its outset nine years ago and have remained lucrative clients.

As Mr Tose puts it: "Our backers have been very helpful, but they are passive investors. Our reliance on their business has diminished over the years, a factor of the size we have become."

Peregrine owes much of its success, and its growing independence, to the decision a few years ago to shift its attention from equities to fixed income.

Two years ago, when bankers were alternately bemoaning the dearth of Asian debt markets and extolling their potential, Peregrine swooped on the fixed income team at Lehman Brothers, the US investment bank in Hong Kong.

The team last year handled almost 80 per cent of the group's total turnover.

Focusing on the region's three more open markets of Indonesia, Malaysia and Thailand, and sticking essentially with non-rated corporates, fixed income is now a crucial part of Peregrine's armoury.

Mr Tose's faith in Asia's

fledgling debt markets is based on the region's growth. Just as the UK's debt markets flowed from the industrial revolution, so Asia's debt markets will blossom from infrastructure, he says. "The debt markets were 15-20 years ago, but they are going to catch up very rapidly."

The figures vindicate the leap into fixed income. In 1990, group turnover was US\$250m. Peregrine wrote its first ticket in September 1994. In 1995, group turnover was US\$1.1bn - mainly because of the new fixed income business. Turnover in 1996 will be more than US\$2.0bn, Mr Tose says, and in 1997 it will be sharply up again.

Revenues from bond trading feed quickly into profits. Being an over-the-counter business, it is less people-

intensive than equities, where membership of a raft of different exchanges pushes up the head cost. (Peregrine's staffing costs are high, at about 60 per cent of total costs, compared with an average of about 40-50 per cent for US banks.)

Mr Tose estimates that returns on fixed income business are roughly double those available on equities. Equities are giving investment banks in Asia a double problem: escalating costs as salaries spiral skyward, and squeezed margins in an ever more competitive environment.

Volumes are bigger in fixed income. Last year, Peregrine topped the league table of book runners for Asian equity international offerings, after raising US\$2.6bn. Yet that impressive tally - ahead of Morgan Stanley and Goldman Sachs

- pales in comparison with Peregrine's fixed income clients, which raised more than US\$20bn.

Nevertheless, Peregrine is reshaping its equities activities, to ensure they too remain lucrative. That means proprietary trading and structured products, which pitches it alongside the more aggressive US banks in the region.

Mr Tose says: "The future of the equities business is going to be more and more derivative-led. The days of being able to take an order to buy 1m HSBC shares and make money on that are fast disappearing. If you look at the annual reports of Morgan Stanley or Merrill Lynch, you will see the amount of agency commission generated is very small. These houses are becoming

giant trading machines." The new breed of bank consumes money. Peregrine boasts a capital base of some US\$850m, all of which is focused on Asia.

To bolster its position further, the group recently acquired a rating from Japan Bond Research Institute, to help it tap the Japanese markets for funding. Mr Robin Fox, an associate director at Nomura Research Institute, says: "Fixed income makes more demands on your balance sheet, and you have to get more credit lines, but Peregrine has been very successful at doing that. It has an aura of success about it, which makes banks willing to lend."

If analysts have worries, they concern the industry, not the company: that a rise in US interest rates may slow growth on the fixed income side this year, and

that broking is at the mercy of the market.

Analysts applaud Peregrine's diversification beyond China and Hong Kong, on commercial terms. However, it takes boldness for Mr Tose and fellow co-founder, Mr Francis Leung, to move in the opposite direction from the rest of corporate Hong Kong in the final days of colonial rule.

Companies, including a number of Peregrine clients, have been chasing alliances with mainland entities and power brokers, the better to fulfil their potential in China.

But for Mr Tose, the increased demand from Asian countries means that Mr Li and his ilk are now treated the same as everyone else on Peregrine's phone network.

Louise Lucas

## National Mutual upbeat on profits

By Nikki Tait in Sydney

National Mutual, the recently demutualised Australian life office which is controlled by France's Axa, said yesterday it expected profits to improve in the current 1996-97 financial year.

"Results for the first quarter of our current year indicate that, subject to investment markets remaining stable, the profit for 1997 should be greater than the A\$210m [US\$159m] achieved in 1996," Mr Athol Lathorne, the outgoing chairman, told shareholders at yesterday's annual meeting.

The company added that it believed National Mutual Asia, its Hong Kong-based life business, had "strong prospects" and that the change in the territory's sovereignty later this year should not "have a significant impact on this growth".

But it also stressed that it intended to pursue other markets in the region: "We are looking at opportunities in... India, Vietnam and the Philippines and have a licence application pending in Thailand," shareholders were told.

Mr Lathorne said prospects for National Mutual Asia remained strong, with continued growth expected in the division's core individual life and health businesses.

"We believe the change in sovereignty [of Hong Kong] in mid-1997 will not have a significant impact on this growth," he added.

Progress was being made on the start-up of operations in Taiwan and Indonesia, the company said.

Axa holds a 51 per cent stake in the quoted group.

## ASIA-PACIFIC NEWS DIGEST

## Teck, Camelot lift Mt Edon bid

Canada's Teck Corp and Camelot Resources, the Australian junior miner in which Teck holds a stake, yesterday raised their joint bid for Mount Edon, which owns and operates the Tarnool goldmine in Western Australia.

The new bid is worth A\$2.25 a share in cash, up from A\$2.15 a share previously, and values Mount Edon at around A\$1.65m (US\$1.25m). It is conditional on the bidders' gaining an acceptance level of at least 90 per cent within three weeks of the offer being dispatched, and is being recommended by Mount Edon's board in the absence of any higher bid.

Teck has said the acquisition would give it an "operating base" in Australia, from which it would look at further acquisitions, both within Australia and in south-east Asia.

It already holds interests in a couple of other junior miners in Australia which are carrying out exploration work in the region.

Nikki Tait, Sydney

## Pitel finance chief quits

The chief financial officer of Pilipino Telephone (Pitel) has resigned after the Philippines' leading cellular telecommunications group made losses of more than 700m pesos (\$26.6m) last year as a result of the pirating of mobile phone numbers.

Mr Ignatius Yenko would be replaced by Mr Juan Velasquez, the company said. Pitel expects net income in 1996 to reach around 700m pesos despite the provision of 887m pesos for doubtful accounts.

AFP-Asia and Reuters, Manila

## PAL revises loss forecast

Philippine Airlines, the national carrier, has forecast a net loss for the year to March of 2bn pesos (\$76m), exceeding its previous estimate of a loss of 1bn-1.3bn pesos.

Mr Jaime Bautista, PAL chief financial officer, said the forecast had to be revised because of a strike in November last year.

"The five-day strike caused PAL 500m pesos in losses," he said.

It also depressed revenue in December, which reached only 2.8bn pesos, lower than the company's original target of 3.3bn pesos, he added.

Estimated revenue for the year to March is 27bn pesos. In the year to March 1996, PAL made a net loss of 2.2 bn pesos.

AFP-Asia, Manila

## CORRECTION to advertisement of 11.2.97

**CITIC Seoul Access Trust**  
International Depository Receipts (IDR)  
Beneficial Certificates representing 1,000 units  
Notice is hereby given to the Unitholders that CITIC Seoul Access Trust, managed by Citicose Investment Trust Management Co. Ltd., Seoul, declared a distribution of 39,000 per IDR of 1,000 units payable since November 22, 1996.  
Payment of coupon number 2 of the International Depository Receipts will be made in US dollars at one of the following offices of Morgan Guaranty Trust Company of New York:

New York, 60, Wall Street  
Brussels, 35, Avenue des Arts  
London, 60, Victoria Embankment  
Frankfurt, 2-4, Bockenstrasse

The proceeds of the coupons presented will be converted into US dollars in the prevailing spot rate of the day following their presentation, and will be distributed to the Unitholders in proportion to their respective entitlements and after deduction of all taxes and charges of the Depository.

Holders residing in a country having a double taxation treaty with the Republic of Korea may obtain payment of their coupons at a lower rate of the Korean non-resident withholding tax, on condition they furnish to either the Depository or through one of the designated sub-paying agents a certificate showing their residence together with a copy of the Certificate of Incorporation or a copy of the passport for individuals. Those documents are requested by the Korean National Tax Administration Office as evidence of residence and without them the full rate of 27.50 per cent Korean non-resident withholding tax will be retained.

If any distribution by the Trust shall remain unclaimed at the expiration of five years from the date on which this distribution first became payable, all rights of IDR holders to such distribution or the proceeds of sale thereof shall be extinguished, and the Depository shall return the same to the Trust.

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JP Morgan

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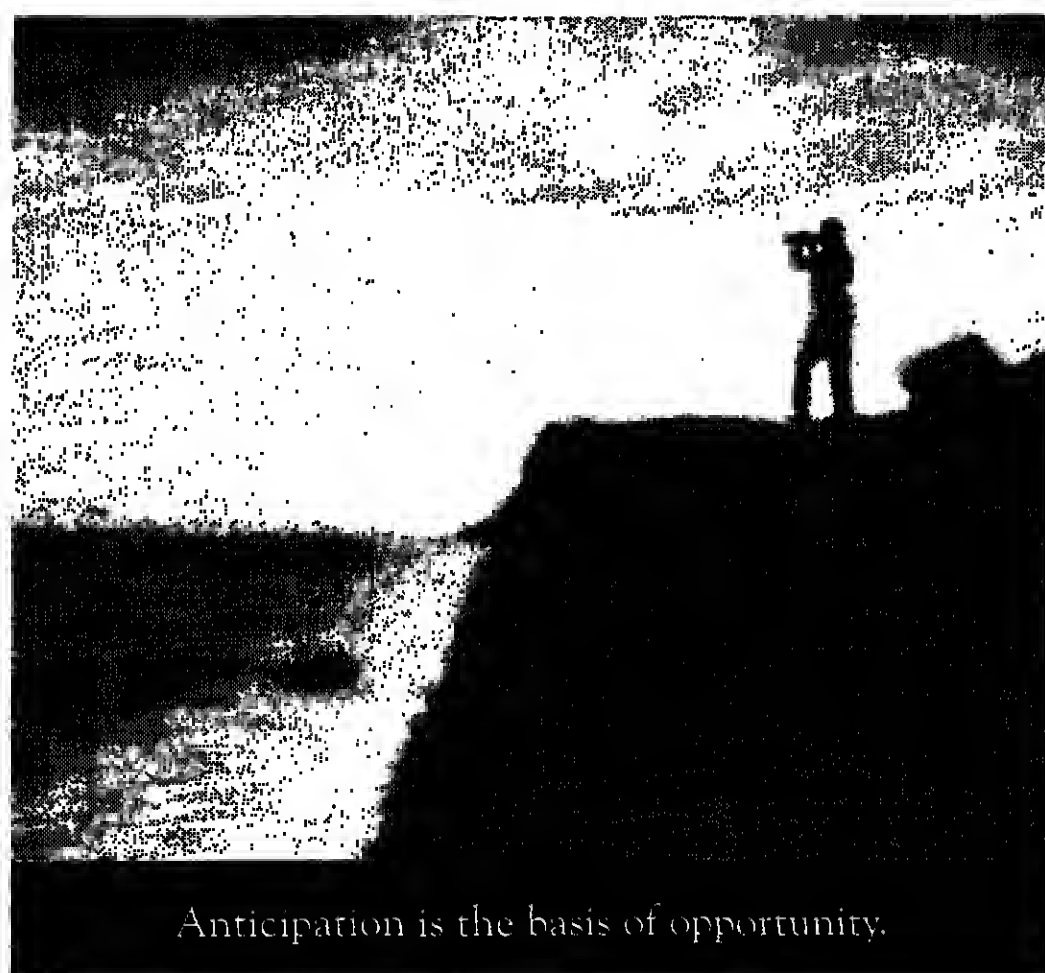
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## COMPANIES AND FINANCE: THE AMERICAS

## US media groups beat market forecasts

By Richard Waters in New York

Both Time Warner and Westinghouse Electric beat stock market expectations with fourth-quarter results yesterday, breathing new life into their subdued share prices.

However, Wall Street analysts had scaled back their expectations for both companies in recent months amid concerns about the time it is taking them to generate earnings from their media and entertainment businesses.

Time Warner also put forward two prominent outsiders as nominees for its board yesterday, a move which is likely to help ease the concerns of shareholders who

have pressed Mr Gerald Levin, chairman, to do more to lift the company's share price.

The two - Mr Stephen Bollenbach, chief executive of Hilton Hotels, and Mr Gerald Greenwald, chairman of UAL - will come up for election at the company's annual meeting on May 15.

Time Warner's shares have fallen in recent months as Wall Street has grown impatient at Mr Levin's failure to resolve the future of its 75 per cent owned cable-TV group, Time Warner Entertainment. A sale to junior partner US West, hinted at last autumn by Time Warner executives, would do much to reduce the group's moun-

tainous debt and buoy its earnings. The group's latest quarterly results indicated a stronger operating performance in a number of its businesses, including publishing, the HBO cable-TV network and its cable-TV systems. But cash flow from music operations slipped slightly to \$290m, reflecting the malaise affecting sales in the industry as a whole.

Together with TBS, which it acquired last October, the improvements lifted Time Warner's earnings before interest, tax and depreciation for the final three months of last year to \$913m, from \$815m the year before. This measure, the so-called Ebitda, is the most widely

followed measure of the heavily indebted company's performance. Time's earnings were weighed down by an interest bill of \$320m, after \$262m a year earlier, and depreciation and amortisation charges of \$31m, compared with \$18m.

That led to a loss for the period of \$18m, or 3 cents a share, compared with a profit of \$5m, or 1 cent, the year before. For 1996 as a whole, Time Warner made an after-tax loss of \$428m, or \$1.04, compared with a loss of \$218m, or 57 cents, in 1995.

Westinghouse reported a loss for the final quarter of last year of \$94m, or 8 cents a share, compared

with a loss of \$7m, or 2 cents, a year earlier.

The company, which is in the process of transforming itself from an industrial conglomerate into a media group, reported a small profit of \$30m, or 7 cents a share, for 1996 as a whole, twice the level of 1995.

Behind the numbers lay a slight improvement in Westinghouse's media unit, which is built around the CBS television network acquired in 1995. On a pro-forma basis, the unit's Ebitda rose 4 per cent from a year before, while revenues were flat at \$1bn.

Observer, Page 11

## Conrail bid battle reaches stalemate

Conrail's network: the key prize

Could the multi-billion dollar bid battle for Conrail, one of three big freight railway operators in the eastern US, be in danger of hitting the buffers? It looks a possibility in the face of the current stand-off between the rival bidders.

CSX, the biggest eastern US railway operator, last month failed to win the support of Conrail shareholders for an agreed \$8.4bn merger. But Conrail is preventing Norfolk Southern, CSX's rival, from pursuing its \$10.5bn hostile bid by using the strict anti-takeover laws that prevail in Conrail's home state of Pennsylvania.

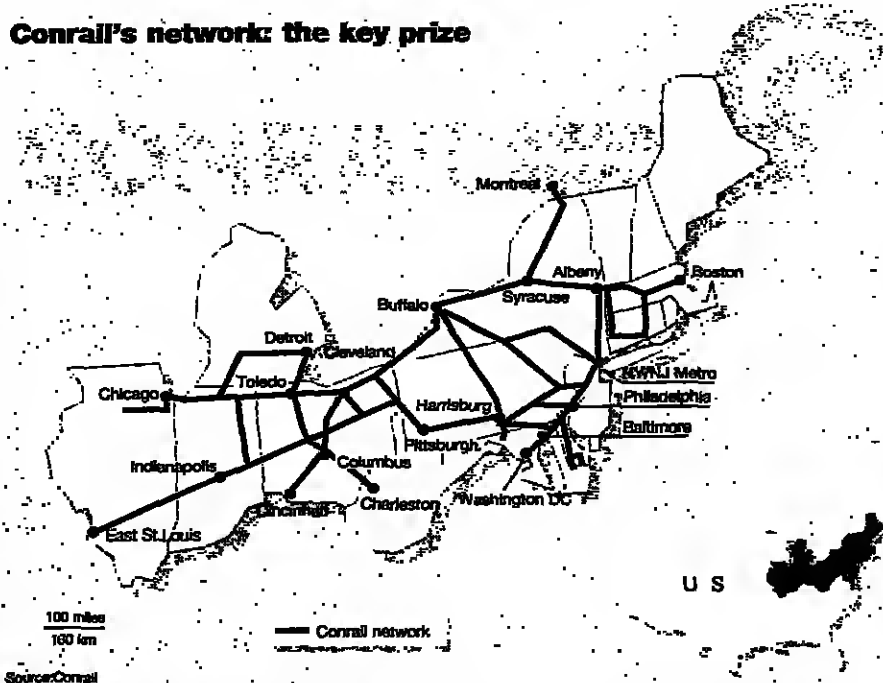
Faced with the stalemate, all three parties have agreed to hold a series of confidential meetings to see if some sort of deal can be thrashed out. But given the background to the takeover battle, few observers are ready to bet on an early resolution.

Conrail may be the smallest of the big three eastern US railways, but it holds a key position because it has a near-monopoly over routes into the New York region.

The company was created by the US federal government in 1976 out of the financial wreckage of Penn Central and five other bankrupt north-east railways. During its years as a publicly owned corporation, it soaked up billions of dollars in government subsidies.

In 1985, with the company on a better financial footing, the government decided to sell it to Norfolk Southern for \$1.9bn. But after a congressional impasse over the plan, Norfolk Southern withdrew its offer. So in 1987 the government floated the company on the stock market in an initial public offering worth \$1.6bn.

Conrail gradually increased profitability by shedding loss-making branch



lines, cutting costs and improving reliability. Meanwhile, however, the rest of the US railway industry was undergoing a big consolidation, which reached a peak when the four big western US railroads merged into two - Burlington and Northern - in 1995, and Union Pacific merged with Southern Pacific last year.

After the consolidation in the west, it seemed only a matter of time before a similar process took place in the east. Of the three big eastern railroads, CSX and Norfolk Southern both had large networks linking the south-east with the mid-west, and both had significant gaps in the north-east: so predictably, it became a matter of which would take over Conrail.

CSX and Conrail announced their friendly merger in October, but Norfolk Southern, fearful of

being dwarfed, quickly countered with a higher offer. Today, Norfolk Southern's offer of \$11.5 billion in cash looks more attractive to Conrail's shareholders than CSX's lower offer, made up of a bundle of cash and securities; but Conrail has been able to use Pennsylvania's anti-takeover laws and a barrage of "poison pill" defences to fend off the Norfolk Southern bid.

Since Conrail shareholders have refused to sanction the CSX merger, the three parties have started talks to see if there is a way through the stalemate. One obvious solution would be to split Conrail's network between CSX and Norfolk Southern, giving both of them access to the north-east.

However, railway analysts think there is little chance

Conrail would agree to this - first, because it would break up a network that Conrail's managers worked so hard to make profitable; second, a broken-up Conrail would probably be worth less than a complete one; and third, Conrail's managers would almost certainly lose their jobs.

This last factor may go some way to explaining why Conrail's management is so reluctant to consider the Norfolk Southern offer. In all probability, Conrail's managers would be thrown on the scrap-heap if Norfolk Southern's hostile bid succeeded, whereas they would hope to stay in place in a friendly merger with CSX.

On Monday, Norfolk Southern said it would seek to replace most of Conrail's directors at the company's next annual meeting. But Conrail has delayed that until December 19.

Mr James Higgins, a railway analyst at Donaldson Lufkin & Jenrette, says Conrail's institutional shareholders will stand firm against the Norfolk Southern offer. "But the critical issue, if this gets strung out, is where the arbitrageurs stand in terms of their willingness to hang on," he says.

Even if the arbitrageurs give up, the CSX-Conrail merger is not a done deal. It would also have to win approval from CSX shareholders.

If the arbitrageurs stay the course, or CSX shareholders reject a CSX-Conrail deal, it is less clear what will happen. Conrail seems adamant it will not do a deal with Norfolk Southern - and indeed, its poison pill provisions prevent it from doing so.

Conceivably, the bid battle could just fizzle out. But Mr Rick Crangle, at Institutional Shareholder Services, a shareholder lobbying group, believes the issue could ultimately end up with the Surface Transportation Board, the federal regulatory authority for the railway industry.

As Mr Crangle points out: "Intervention by the STB could dramatically alter the terms of any settlement because the STB can ignore all federal and state laws that Conrail and CSX have used to prevent a Norfolk bid."

With its remit to promote competition, the STB would probably break up Conrail and split it between CSX and Norfolk Southern - so ending the company's short history, along with one of the more unusual takeover battles of recent years.

Richard Tomkins

## Intel pays \$820m in employee bonuses

By Louise Kehoe in San Francisco

For the 50,000 employees of Intel, the world's leading semiconductor manufacturer, 1996 proved a very good year. On average, they received a 33 per cent bonus above their base salaries.

For the typical entry-level employee, a manufacturing line operator or administrative assistant earning about \$25,000 a year, the bonuses added \$8,000 to their bank accounts.

At the other end of the scale, senior executives reaped bonuses of tens of thousands of dollars.

Total employee bonuses for 1996 came to \$820m, the highest in the company's history, Mr Craig Barrett, Intel chief operating officer, said yesterday. In addition, the top 25 per cent of Intel's workforce received valuable stock options.

Intel's share price has soared over the past 12 months, from about \$50 in April 1996 when the last tranche of stock options was granted, to more than \$150 in the past few weeks.

Adding a new benefit to the range of cash bonuses and retirement funds available to Intel employees, Mr Barrett announced that all employees of the company would now be eligible to receive stock options.

Although stock options are a standard method of compensating employees at US high-technology companies, Intel is believed to be the largest manufacturing company to grant options to all employees.

Bonuses for 1996 reflect a 44 per cent rise in Intel's net income to \$5.16bn, or \$5.81 a share, as sales of the company's microprocessor chips and related products jumped 29 per cent to \$20.6bn.

Last month Intel announced that every employee would receive a \$1,000 "thank you" bonus. In addition, the company paid out profit-related bonuses equivalent to 27 days of extra pay per employee, for a total of \$214m. Additional performance-related bonuses came to \$360m.

On top of these bonuses, Intel paid \$200m into employee's tax-sheltered retirement funds at the rate of 12.5 per cent of employee contributions, the maximum allowable under US tax laws.

## AMERICAS NEWS DIGEST

## VF unveils \$150m reorganisation

VF, the world's biggest quoted clothing company, announced it was to give "an unprecedented push" to its Wrangler jeans and other main products, backed by a business reorganisation expected to cost \$150m over the next few years. It also reported a 24 per cent increase in underlying fourth-quarter net profits to \$82.7m, or \$1.28 a share, excluding a restructuring charge in the prior year. Sales rose 8 per cent to \$1.4bn.

Underlying net profits for the full year rose 15 per cent to \$299.5m, but sales were sluggish, rising 1.5 per cent to \$5.1bn. VF's products include Wrangler and Lee jeans, Red Kap workwear, JanSport backpacks and Vanity Fair intimate apparel.

Richard Tomkins, New York

## Calpers names poor performers

Apple Computers and Reebok International are among the 10 poor performers named in an annual list published by the California Public Employees' Retirement System (Calpers), the largest US public pension fund. Calpers will target the 10 companies in its corporate governance activism for the 1997 proxy season, which is just starting.

The fund says "Apple's top management lacks experience in the personal computer business" and the pension fund is "dissatisfied with the high salaries paid to management in light of poor financial performance". Last week, Calpers voted against Apple's board at its shareholders' meeting. Reebok is on the list, despite a rise in its stock price, because Calpers is "concerned that Reebok's management has operated with insufficient accountability to the board". Tracy Corrigan, New York

## Fidelity fund reverts to equities

Fidelity's Magellan Fund, the largest mutual fund in the US, made heavy sales of bonds during December as it continued to return to its traditional strength in equities, figures published yesterday by Boston-based Fidelity Investments reveal. Magellan now has net assets of \$55.15bn, but suffered outflows of almost \$6bn last year, as investors reacted to the decision in late 1995 by Mr Jeff Vinik, its former manager, to invest in bonds.

According to Fidelity's latest figures, Mr Robert Stansky, Magellan's new manager, cut the fund's weighting in bonds from 7.9 to 3.8 per cent during December. A year earlier it had been 18.1 per cent. However, he refrained from substantial changes to the balance of the equity portfolio. John Authers, New York

## North American paper groups face shake-out

By Bernard Simon in Toronto and Robert Gibbons in Montreal

Rationalisation of North America's pulp and paper industry is set to leap forward with several of the biggest producers involved in merger and takeover talks.

Toronto-based Abitibi-Price and Stone Consolidated of Montreal were on the verge earlier this week of finalising a merger that would have created the world's biggest newspaper producer.

The talks broke off late on Monday, but are expected to resume.

Speculation also centres on Avenor, the Montreal-based pulp and newspaper producer, which is trying to push through a proposed acquisition of Repap, which specialises in high-quality printing papers and pulp.

Avenor's all-share offer, worth C\$3bn (US\$2.2bn) including C\$2.4bn in Repap debt, has so far received a lukewarm reception from institutional shareholders and analysts.

According to several analysts, Avenor may itself become a takeover target if the Repap deal falls. Among those mentioned as possible predators are Montreal-based Donohue, as well as Abitibi and Stone.

The North American forest

products industry is under pressure to streamline operations, given the recent slump in pulp and paper prices, relatively small, outdated mills, and intense competition from low-cost producers in Asia and Latin America. Newspaper producers recently delayed a 15 per cent price increase due to take effect on February 1.

However, North American producers, especially in Canada, have so far been slower than their European counterparts to respond to these pressures. "There has to be a fairly high degree of consolidation," one Toronto analyst said yesterday.

Abitibi and Stone have a combined newspaper capacity of about 3.9m tonnes, compared with 1.8m tonnes at Finland's UPM Kymmene, the biggest European producer. The big Scandinavian groups, which currently have a relatively small presence in North America, are frequently mentioned as possible buyers in the US and Canada.

Abitibi posted 1996 earnings of C\$104m, including a small fourth-quarter loss, on sales of C\$2.62bn. Stone Consolidated reported 1996 earnings of C\$164m on sales of C\$2.3bn.

Abitibi lost 25 cents to C\$21.85 in early trading in Toronto yesterday. Stone was unchanged at C\$20.65.

## Goodwill write-off hits Telmex income

By Leslie Crawford in Mexico City

A large goodwill write-off, charity contributions and the loss of its long-distance telecommunications monopoly sharply reduced net income at Telefonos de Mexico, the country's dominant telecoms company, in the last quarter of 1996.

Net income fell to 83m pesos (\$10.6m), compared with 1.24bn pesos a year earlier. For 1996 as a whole, Telmex's net income totalled 11.6bn pesos, 2.4 per cent below that for 1995.

Telmex wrote off 1.56bn

pesos of goodwill during the fourth quarter related to past acquisitions. Analysts were not worried about this one-off charge, as it did not affect Telmex's cash position. However, they were surprised by an 895m peso charge for expenses related to the opening of long-distance services to competition in January.

"Apparently, these charges will continue into the first quarter of 1997," said Ms Joanna Smith, of Caspian Securities in New York. "We did not expect these expenses to be presented as an extraordinary item."

Analysts also remarked upon a 245m peso contribution to the Telmex Foundation, a charity set up by Mr Carlos Slim, the company chairman. "It is not fair to use shareholders' money for charity," Ms Smith said. "If the controlling shareholders of Telmex want to support a charitable foundation, they should do so out of their own pockets."

Revenues for the quarter rose to 13.56bn pesos, a 9.3 per cent increase over the same period in 1995. Revenues for the year fell 1 per cent to 52.71bn pesos.

The impact of losing its

long-distance monopoly was also evident in Telmex's higher operating costs. Commercial and administrative expenses rose 62 per cent in the fourth quarter of 1996, to 3.18bn pesos, mainly the result of heavy advertising outlays needed to maintain customer loyalty.

During the quarter, Telmex undertook a rebalancing of telephone tariffs which brought about a 26.2 per cent increase in domestic long-distance revenues and a 14.7 per cent increase in local service revenues. International long-distance revenues fell 6.2 per cent, largely

owing to lower settlement rates with US operators. The volume of international calls, however, rose 1.4 per cent to 911m minutes - an important growth indicator for rival companies, which began to offer long-distance services this year.

Operating income for the quarter fell 3.3 per cent to 4.86bn pesos. For the year, Telmex's operating income fell 14.1 per cent to 20.25bn pesos.

Telmex shares were down 10 centavos at 14.65 pesos per cent in early Mexico trading yesterday following publication of the results.

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The above rate applies to an interest payment of U.S.D. \$2,307,993 per US\$1,000,000 in principal amount of Notes.  
BANCO NACIONAL DE MEXICO, N.Y.  
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February 10, 1997

## LEGAL NOTICES

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NOTICE IS HEREBY GIVEN pursuant to Section 98 of the Insolvency Act 1986 that a Meeting of Creditors will be held at the offices of Robert Rhodes, The Galleries, Station Road, Canvey Island, Essex SS16 1LH on 18 February 1997 at 10.00 hours for the purpose of considering the proposed arrangement for the sale of the assets of the Company.

Creditors wishing to vote at the meeting must lodge a proxy, together with a statement of their debt, at the offices of Robert Rhodes, The Galleries, Station Road, Canvey Island, Essex SS16 1LH on 16 and 17 February 1997 between the hours of 10.00 and 16.00 hours.  
Dated this 21 January 1997  
A T HAWKLEY Secretary  
H G GURNEY Director

## U.S. \$100,000,000

Crédit Commercial de France  
Subordinated Floating Rate

In accordance with the provisions of the indenture, notice is hereby given that for the interest period from February 12, 1997 to August 11, 1997 the Notes will carry an interest rate of 5.365329% per annum. The interest payable on the relevant interest payment date, August 12, 1997 will be U.S. \$26.97 per U.S. \$100,000 Note, U.S. \$269.65 per U.S. \$100,000 Note, U.S. \$2,696.54 per U.S. \$100,000 Note.  
By: The Chase Manhattan Bank  
London, Agent Bank  
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Shares fall as full-year profits at record £2.6bn come in slightly below analysts' expectations

## BP figures prompt warning

By Robert Corzine

British Petroleum yesterday reported a 30 per cent rise in net profits last year to a record £2.6bn (£1.6bn). But a warning by Sir David Simon, chairman, that such a strong performance was unsustainable caused the shares to tumble 27p to 694p.

Discretionary fourth-quarter exceptional

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## COMPANIES AND FINANCE: UK

Poor summer weather and BSE crisis affect sales, but global profits soar as North America jumps to 'normal' level

# European double trouble takes shine off Unilever

By Gordon Cramb in Rotterdam

Europe, where Unilever has long been struggling to improve its returns, produced a twin blight last year on the Anglo-Dutch group's otherwise healthy results. Poor summer weather in its biggest market set back ice cream sales, while the UK's BSE crisis hit products like frozen hamburgers.

Mr Morris Tabakslat, co-chairman, estimated that the two problems together had cost the group £150m (\$89.7m) in profits. Sales in Europe were flat at £16.3bn, while a 6.2 per cent rise to £15.5bn in operating profit

was attributable entirely to lower employer pension contributions.

This windfall was a main factor behind a 79 per cent leap in fourth-quarter pre-tax profits worldwide to £741m, giving earnings of 22.42p per share against 14.65p. Pre-tax profits for the full year rose 9 per cent to £1.61bn, for earnings of 85.9p (78.63p).

A total dividend of 32.05p (29.4p) is proposed. This includes a final pay-out of 21.76p, following a change in policy which saw an enhanced distribution, equivalent to 35 per cent of the previous year's total, at the interim stage.

The group described the outlook for the current year as generally favourable, but added: "We see little reason to believe that conditions in Europe, particularly in France and Germany, will improve."

Consumer spending remained under pressure from fiscal stringency being imposed by governments anxious to meet budgetary requirements for monetary union, Mr Tabakslat noted.

In North America, sales jumped 18 per cent to £7bn, returning to what Unilever said were normal levels. This followed a 1996 drive to reduce stocks held by US trade customers of Lipton,

its tea unit. Operating profits rose nearly 33 per cent to \$643m, assisted by the addition of Helene Curtis personal products. By contrast, product launch costs at Elizabeth Arden and Calvin Klein held back growth.

For Asia-Pacific, dull performances from Australasia and Japan restrained growth in operating income to 5.6 per cent, reaching £415m on revenues 11.3 per cent higher at £4.81bn.

India was described as producing an outstanding performance, its outlook enhanced by approval for a merger between Hindustan Lever and Brooke Bond, its two main local subsidiaries.

Sales grew strongly in China, particularly in personal products and detergents.

Elsewhere, Unilever cited good outcomes in South Africa but difficulties in Kenya. In Latin America - where operating margins at 10.4 per cent are the group's highest - it made acquisitions in consumer categories while shedding commodity businesses.

Worldwide operating margins, excluding specialty chemicals, were highest in personal products at 12.1 per cent, improved from 11.5 per cent the year before, and narrowest in culinary and frozen foods, although at 6.8 per cent

they showed a marked improvement from the previous 5.6 per cent.

Exceptional items charged against operating profit were little changed at £237m (£231m). This time they comprised £348 in restructuring charges offset by £111m in credits including disposals. A net £166m was debited in Europe, while by operation the biggest deductions came in the foods side, absorbing £138m of the total.

Capital spending dipped 3.7 per cent to £1.17bn, while research and development outlays were up 2.6 per cent to £600m. The advertising and promotion bill rose 11.4 per cent to £3.79bn.

## Giant breaks free from the shackles

I'd rather have anything than indifference," runs the catch line of an advertisement for "ck two", a new Unilever fragrance.

Yet an indifferent share performance is what investors have endured in recent years as the Anglo-Dutch consumer goods company has struggled to revive profits in mature European and North American markets and build new businesses in emerging economies.

So Unilever's gamble yesterday to break free of those constraints won resounding applause from shareholders - although they and the company are well aware of the risks over the next few years. Selling its specialty chemical businesses to fund consumer goods acquisitions is fraught with problems.

The biggest is finding businesses equal, if not better, than specialty chemicals, one of Unilever's best performers, as a generator of cash and profits.

The road to this historic moment for Unilever began in 1993, Mr Niall Fitzgerald, chairman of the UK division, said yesterday. With 57 categories of businesses, the

There are risks in Unilever's plan, writes Roderick Oram

rambling company began to consider what activities it really wanted to be in.

These have been reduced to 14, mostly in high margin, high growth and cash-generative businesses such as ice cream, spreads, personal care products and tea. Unilever is also pouring large sums of money and cadres of management into emerging markets. Its five priority regions are China, India, south-east Asia, southern Latin America and central and eastern Europe.

But one considerable frustration was Unilever's complex senior management structure: there was a lack of clear purpose.

Mr Fitzgerald spent much of last year before he became chairman designing a simpler structure. The board became responsible for strategy, and operational performance was devolved to presidents of business categories.

The new structure was working well, he said yesterday. Certainly, the board

had faced up to a daunting strategic decision in selling specialty chemicals, analysts said yesterday.

The other important thrust of Mr Fitzgerald and Mr Morris Tabakslat, chairman of the Dutch arm, was to tackle those under-performing and non-strategic businesses. Those accounted for about 20 per cent of the group a year ago, excluding specialty chemicals. Intense reviews had already identified disposal candidates, while others had been set ambitious targets.

By the end of last year these businesses accounted for about 16 or 17 per cent of the group, and this year should see a further reduction, Mr Fitzgerald said. The goal was to reduce the figure to virtually zero. "If we're out through that process by the end of 1998, we're not doing a good job."

Analysts said such portfolio management was credible and contrasted sharply with the strategy of Nestlé,



Niall Fitzgerald has taken the gamble, and now faces new challenges to generate profits

Unilever's Swiss rival, which seems intent on hanging on to marginal businesses. But weeding out is not enough - real growth in shareholder value will come from new businesses and markets.

How Unilever unleashes some £10bn of spending

power is the critical issue. It was understandably coy yesterday, though Mr Fitzgerald allowed that Unilever would like to expand its food categories. But it was his reference to "adjacent categories" which must have set the pulse racing of any mer-

chant banker involved in mergers and acquisitions. Food and personal product areas neighbouring Unilever's open up a vast territory for it to do deals. Steady discipline in that will be the next challenge for Mr Fitzgerald and Mr Tabakslat.

## £6bn speciality chemicals sale

By Clive Cookson, Science Editor

The disposal of Unilever's four specialty chemicals businesses, valued by analysts between £5bn and £6bn (\$8.7bn), will be the latest development in a turbulent year of restructuring for the sector.

Recent moves include the spin-off of Ciba Specialty Chemicals from the Novartis drugs group, the merger of Hoechst's specialty business with Clariant, and Roche's purchase of the Tasmaker synthetic flavours business.

Any of those might be interested in buying some or all of the four businesses. They had a combined turnover of £3bn in 1996 and an average operating margin of 14.1 per cent, producing an operating profit of £415m.

Other potential purchasers include Bayer, BASF and Henkel of Germany; DuPont, Great Lakes and WR Grace of the US; Akzo Nobel of the Netherlands; and ICI.

Together the Unilever businesses make up one of the world's largest specialty groups - the largest is the new combination of Clariant and Hoechst, with total sales

of about £3.5bn a year.

● National Starch and Chemical, based in the US, accounts for more than half of Unilever specialty chemicals. Its turnover of \$3bn a year is divided between industrial adhesives, resins and starches.

● Quest International, based in the Netherlands, is a leading manufacturer of fragrances, food flavours and ingredients. Its turnover is just under \$1bn a year.

● Unichema International, Netherlands-based, makes "oleochemicals" from natural oils and fats. Sales are \$750m a year.

● Croscfield, based in Warrington, is the baby with annual turnover of \$400m. It converts silica and alumina into particles with a wide range of applications, from toothpastes to plastics.

The most sought-after business is likely to be Quest. On the basis of the \$1.1bn that Roche of Switzerland paid last week for Tasmaker, a smaller US flavours company, Quest alone would be worth \$50m.

Unilever is being advised by Lazard Freres and Lazard Freres, which will also conduct the sale.



## SPOT THE REFUGEE

There he is. Fourth row, second from the left. The one with the moustache. Obvious really.

Maybe not. The unsavoury-looking character you're looking at is more likely to be your average neighbourhood slob with a grubby vest and a weekend's stubble on his chin.

And the real refugee could just as easily be the clean-cut fellow on his left. You see, refugees are just like you and me.

Except for one thing.

Everything they once had has been left behind. Home, family, possessions, all gone. They have nothing.

And nothing is all they'll ever have unless we all extend a helping hand. We know you can't give them back the things that others have taken away.

We're not even asking for money (though every cent certainly helps). But we are asking that you keep an open mind. And a smile of welcome.

It may not seem much. But to a refugee it can mean everything.

UNHCR is a strictly humanitarian organization funded only by voluntary contributions. Currently it is responsible for more than 19 million refugees around the world.

UNHCR Public Information  
P.O. Box 2500  
1211 Geneva 2, Switzerland



United Nations High Commissioner for Refugees

### LEGAL NOTICES

In the District Court of Hall, Israel  
Sitting as the Admiralty Court

Admiralty File 96/996  
JUDICIAL SALE BY AUCTION

THE "KATERINA ONE" is on sale by Mr P. G. Natchias, Auctioneer, the Receiver appointed by the Admiralty Court in Hall, at the request of Amel (Group) Ltd and others.

The "KATERINA ONE" is a vessel built in 1967 by A. Zaidanov S.S. Yard - Leningrad.

Specifications:  
Gross 4445  
Net 2340  
LOA 121.95  
Draft 16.69  
Deadweight 2290  
Engine 6000 S.A. 900, 5400 (1100)

The "KATERINA ONE" is berthed at open berth off Eilat Port.

Written offers, must be submitted to the Receiver on or before February 25th, 1997, to the following address:  
P.G. Natchias, Auctioneer,  
Natchias, Brindley & Co.,  
Law Offices,  
3 TIVOLI STREET,  
TEL AVIV 67997  
ISRAEL  
Tel: 972-3-6235000  
Fax: 972-3-6235005

All offers should be accompanied by a certified cheque, drawn on a first class Israeli, US or UK bank, payable to the Receiver, or an unconditional bank guarantee in favour of the Receiver, in the amount of 5% of the offer ("Advance Payment"). The Advance Payment will be forfeited should the party making the offer refuse or fail to honour his offer, otherwise it will be applied as an advance on account payment. Advance Payments will be refunded to the successful bidder.

The "KATERINA ONE" will be sold on an "as is, where is" basis and the successful bidder will obtain title according to law.

The Receiver is not under obligation to sell to the highest bidder or to sell at all. The sale will be conducted by way of auction or in another mode upon which the Receiver or the Court may decide.

This advertisement is not to be construed as an offer of sale.

The interested parties, and any further details or information which will be supplied by the Receiver or on his behalf, are accepted as general and preliminary information only, and any interested party is under an obligation to verify and check the information as well as the factual and legal position at his own risk and responsibility.

The successful bidder will be required to pay 10% of the price in cash or by a certified cheque drawn on a first class Israeli, US or UK bank payable to the Receiver immediately following the sale, and to pay the remaining 90% of the bid price, in the same manner as aforesaid, within three (3) working days after confirmation of the sale.

Any and all claims against the proceeds of the sale must be filed with the Receiver on or before February 25, 1997. Any claims filed after that date shall be in default and shall not be considered.

Sale is subject to the approval of the Court. Further information is obtainable from the aforesaid.

LEGAL NOTICES

In the Court of Session  
PETITION OF IAN MCLEOD VETTER,  
residing at 83 Adair Drive,  
Gifford, Glenrothes G64 9QW  
MARGARET SMITH McDONALD,  
residing at 196 Spruce Road,  
Cumbernauld G67 9JT  
AS BENEFICIARIES OF  
THE CLARION GROUP  
RETIREMENT AND DEPENDANTS  
BENEFITS SCHEME

NOTICE IS HEREBY GIVEN that a Petition has been brought in the Court of Session, Edinburgh, Scotland by Ian McLeod Vetter and Margaret Smith McDonald as Beneficiaries of The Clarion Group Retirement and Dependents Benefits Scheme for the appointment and removal of Trustees to the said scheme. Should any party claim an interest in said position, they should lodge answers thereto, if so advised, within 21 days of publication of this notice.

J. McEwen  
Solicitor for Petitioners  
Enbank House  
48-51 Queen Street  
EDINBURGH  
EH2 4NF

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**COMMERZBANK**



Using the Net • Richard Waters

## New sales vehicle revs up



This is tipped to be the year when car manufacturers and dealers arrive on the web en masse

Up in the far north of Idaho, a vehicle dealer by the name of Ken Smith is discovering the joys of the Internet.

Smith's Dodge franchise is already one of the best known in the north-west. From his showroom in Kellogg, a town of 3,412 souls in the foothills of the Rocky Mountains, the enterprising Smith sold 4,783 new vehicles last year, and another 1,000 or so used ones.

It wasn't the World Wide Web that brought all those buyers. Dave Smith Motors, which is named after the present owner's father, has long had a reputation for selling at heavy discounts. "It has been a big word-of-mouth thing," Smith says.

One of the virtues of the web, though, is that it can help word-of-mouth spread faster. Smith appeared on the Internet last summer, since then, around 30 or so sales have come from computer users who have cruised by his site, and two employees now spend their time responding to customers who make contact by e-mail.

"I think the industry is a year and a half away from the Internet really taking off," Smith says.

The popularity of the web is beginning to intrude at all levels of the US vehicle industry - with implications for the way Detroit and the country's 50,000 or so dealerships go about their business.

At one level, it is beginning to have an impact on the industry's traditionally territorial dealer system, allowing entrepreneurs such as Smith to step more easily on to their neighbours' turf. At another level, it is enabling vehicle manufacturers to get closer to their customers - and to make communications flow more smoothly around their extensive international operations.

The dealers are likely to feel the effects first. "In the long run, [the Internet] will build a stronger dealer network," says Richard Everett, director of interactive technology at Chrysler. But in the short term, it could cause considerable disruption. Even before the Internet

intruded on their lives, other Dodge dealers in the north-west were trying to persuade Chrysler, the vehicles' manufacturer, to stop allocating so many of its top-selling trucks to Smith. The Internet is likely to make this sort of rivalry far more intense.

By most estimates, only around 5-10 per cent of dealers in the US have a presence on the web at the moment - but 1997 is the year when a mass arrival is generally tipped to take place.

Information Technology  
The FT's review of Information Technology appears on the first Wednesday of each month.

One result could be the emergence of more regional super-dealers like Smith. That would echo other forces already at work in the US's \$300bn (£194bn) new vehicle market. As public companies begin to target a distribution system that has until now been the preserve of small, private businesses.

Another result is the appearance of a new type of intermediary, interposing itself between customers and the dealers. Going by names like Auto-By-Tel and AutoVantage, these services invite users to submit requests for vehicles they want to buy, then feed those requests to dealers near the customer's home who have paid to be part of the network. The dealer then contacts the potential buyer direct.

Efforts to tie both buyers and dealers into these new networks are multiplying. Auto-By-Tel has arrangements with Chase Manhattan and American International Group for people

buying cars to submit online requests for loans and insurance.

Now, to preserve its network from competitors, the company has started trying to get its 1,200 paying dealers to sign exclusivity contracts. By agreeing not to join rival networks - and by agreeing to let Auto-By-Tel train their sales staff in basic common levels of service - dealers are tying themselves increasingly closely to the system.

As is the way of the Internet, Auto-By-Tel itself feeds off other popular sites, with a large proportion of its visitors coming through Microsoft's CarPoint, or through Edmunds, a popular provider of pricing and other vehicle information.

The vehicle manufacturers seem content to sit back and let these forces take their course - while themselves using the Internet in ways that could alter their traditional relationships with

dealers. Chrysler, for instance, is trying to use its web site to find out more about its customers' car-buying preferences.

The key is a specification system in the company's web site which allows potential buyers to build a picture of the vehicle model they want, from its colour to its range of accessories. The price is calculated automatically.

The buyer can then print off the details and go to the dealer armed with the specification "without being forced to accept whatever is on the dealer's lot", says Everett. "It used to be, when you visited the dealer, he held all the cards", including details of price, he adds. In an online world, that information advantage could start to be eroded.

By collecting the do-it-yourself specifications, Chrysler also hopes to have a far better idea, and far quicker, of what customers in general want. That should enable it to adjust its output more rapidly. Gathering this information will not be possible until at least the end of this year, Everett says.

The big US vehicle makers have also begun to turn to the World Wide Web for ways to make their internal communications more efficient.

Ford Motor took the decision 18 months ago "to move to the web as its way of doing business", says Steve Cote, the company's head of information management. That decision led to the launch of an intranet hub last summer: Netscape's browser has been deployed to 50,000 employees and the company has so far put 15,000 people through training to use the system.

The network is being used by the various people involved in Ford's new vehicle programmes to transfer technical and other information between themselves, the company says.

It is also an important tool in Ford 2000, the company's ambitious reorganisation aimed at turning itself into a global company, making it possible to communicate with large numbers of people quickly. "The intranet is absolutely key to handling large-scale change in a large organisation," says Cote.

This article is part of a series on how different industries are exploiting the Net. Previous articles appeared on January 29, December 11 and November 20.

## Watching brief



## The fast reactor

Texas Instruments, the US semiconductor maker, has launched a digital signal processor chip which can handle 1.6bn instructions per second - about 10 times more than the fastest chips available today.

The TMS320C620 will enable faster communications and more efficient mobile telephone and other services. TI claims that a file that currently takes 10 minutes to download over the Internet could be retrieved in less than five seconds. Similarly, the chip is expected to enable callers to use one telephone line simultaneously for voice and data. It could also allow cellular network operators to shrink the size of today's typical 100 sq ft base station to the size of a shoe box while improving transmission quality.

Texas Instruments  
France, tel 49322249

## Strong on exports

The US Commerce Department has allowed Digital Equipment, the US computer group, to export 56-bit or "strong" encryption products - considered essential for protecting Internet commerce.

The US classifies "strong" encryption software, such as Digital's AltaVista Tunnel, as "munitions", making it subject to tough export conditions originally designed for military weapons. Until now US-based companies have generally been allowed to export only 40-bit

encryption technology, which is much less secure.

The department announced at the end of last year that US companies would be allowed to export "strong" encryption products if they could demonstrate progress in developing so-called key-recovery products over the next two years. Key recovery will allow one or more organisations to hold the information needed to reconstruct a key to an encrypted message.

Digital Equipment  
Switzerland, tel 227094658, fax 227094742

## Out of sight no longer

From next month Intel is to add a feature to its ProShare Video System 200 desktop video-conferencing system to allow users to leave video messages for each other. The US chip-maker believes this will be particularly useful for global businesses where time differences can hamper real-time communications.

"The addition to the Intel ProShare Conferencing System goes beyond the standard telephone answering machine by adding video to voice mail," says Nigel Grierson, director of Intel's European marketing, Internet and communications group. The updated system will also add features for recording and replaying video conferences.

Intel UK, tel (0)1793 403000, fax 430763  
Compiled by Paul Taylor. Information for this column can be sent to info@tech.ft.com

## SOFTWARE VIA THE NET Linux's operating system

## Blow struck for the unknowns

It is the ideal business plan: take software developed for free by other people, stick it on a CD-Rom and sell it for \$39 - undercutting all your competitors by several thousand dollars.

Several companies survive by selling disks of "freeware" and "shareware" - software the authors give away for free trial - but corporate customers, which would buy hundreds of copies and be prepared to buy technical support, tend to avoid unbranded software.

Caldera, a private US company, is courting the corporate and small office market with Linux, a free operating system to which it adds its own utilities and technical support.

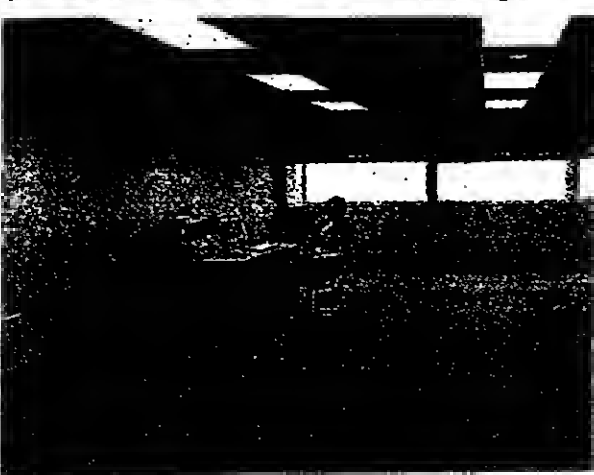
Linux, designed to be compatible with the Unix standard running many of the most powerful computers and Internet systems, was written by Linus Torvalds of Finland in 1991, and published on the Internet, where teams of volunteers update it.

Caldera has the benefit of financial backing from the Ray Noorda family trust, and has Ray Noorda, former chief executive of networking company Novell, as an adviser. But Linux has no pedigree, no powerful supporters, and if it has been heard of at all, is usually regarded as a

toy for maths students.

Caldera, which has just launched its OpenLinux base system, is responding by going for niche markets and trying to change the operating system's image. Apart from forming alliances with big names such as Netscape and, predictably, Novell, it is applying to use the Unix brand name, controlled by the X/Open consortium.

"We think this is very important," says Ransom Love, vice-president of sales and marketing for Caldera. "Because governments feel standards compliance is an important issue." The company is pushing Linux towards the Unix standard, but because the hundreds of



Room for improvements: in the corporate and small office sector

programmers are volunteering evenings and weekends for the work, it is not a quick procedure.

"One of the key things we want to do is to work directly with the Linux community, (which) makes the process a little bit slower than if we just funded the work ourselves," Love says. The upside is that the company, with just 30 staff, sells a product directly comparable with Microsoft's Windows NT or Sun's Solaris.

However, Caldera is not attempting to compete head-on with these giants. Instead, it is going for markets that emphasise Linux's main strength -

networking. Not surprisingly for a product developed purely over the Internet, Linux has comprehensive networking, with support built in for Windows, AppleTalk and the TCP/IP protocol used on the Net, as well as the ability to act as a dial-up server. Caldera has just licensed Novell's system, which will complete the set.

In big corporations - Bell Laboratories and South West Airlines are customers - Love pushes Linux as the "glue" that holds the many different networking standards together. With smaller companies he sells on price: rather than spend thousands on a commercial Unix to connect to the Internet and to home workers, and then more on hardware to support the memory-hungry operating system, Linux will run on a cheap 486-based PC.

Malcolm Beattie, a systems programmer who uses Linux to run Oxford University's main World Wide Web server, claims it is better than the expensive options. "It is more secure, straight out of the box than most commercial systems against people coming in over the network," he says, as well as being faster.

James Mackintosh

## Sales by the bundle

Multifunction computer peripherals - machines that incorporate two or more copying, faxing, printing or scanning functions - are becoming increasingly popular in Europe, thanks partly to the spread of teleworking.

Research from the US-based International Data Corporation predicts the European market will jump from 260,000 units last year to more than 1.6m by 2000. Germany was the biggest European market last year, with 35 per cent of sales, followed by France and the UK.

At present, fax-based machines dominate at the low end of the market, but IDC predicts a rapid shift towards printer-based prod-

ucts, which it says will account for \$469m of sales by 2001. Simultaneously, there will be a transition from monochrome to colour products, where shipments are expected to rise significantly from just 37,300 units in 1996 to 1.1m by 2001.

Much of the growth in the low end of the market will be driven by the expected surge in teleworking, but growth in the business market is expected to be more muted as users weigh up the benefits of moving from high-quality single-function peripherals connected via a network, to an integrated multifunction peripheral.

The European Multifunction Peripheral Review and Fore-

cast, \$10,000. Details from Meryl Salter, tel UK (0)181 987 7108, fax (0)181 747 0212, or e-mail msalter@idacsearch.com

## All eyes on a hot date

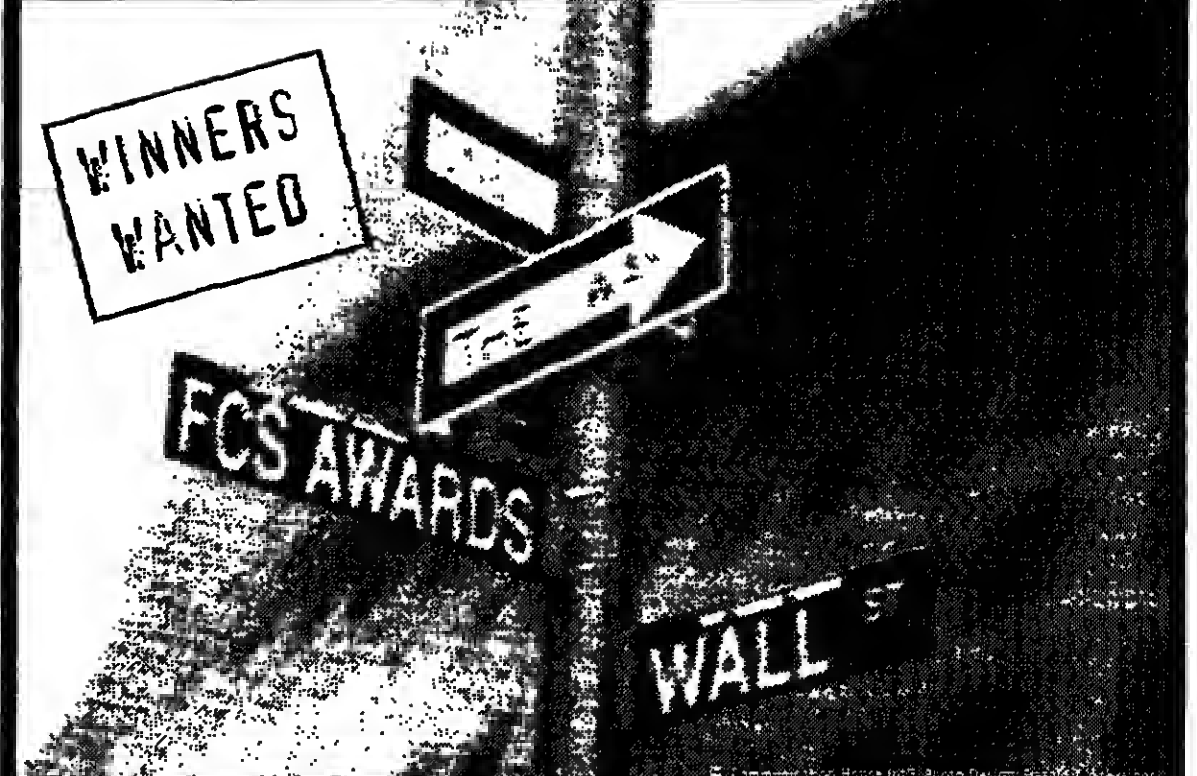
Yet another survey about the two big issues facing Europe's IT directors - tackling the millennium date change and delivering compliance with European monetary union - finds the former is considered far more important than the latter.

All 100 IT directors from big UK companies responding to a survey commis-

sioned by Intersolv, which makes applications enablement software, have begun to think about 2000 compliance - ensuring their computers do not register 2000 as "year zero". But 68 per cent had not yet considered redesigning their systems for Emu, and 98 per cent had no target date for Emu compliance. IT directors described the Emu challenge as "vague" and "an issue that will not affect them". Corporate UK and the Year 2000. Available free from Intersolv, contact Simon Atkinson, tel UK (0)1727 512812 or e-mail simon\_atkinson@intersolv.com

Compiled by Andrew Baxter. Information can be faxed to UK (0)171 873 3196 or sent by e-mail to info@tech.ft.com

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## INTERNATIONAL CAPITAL MARKETS

## European sector enjoys positive session

## GOVERNMENT BONDS

By Samer Iskandar  
in London and  
Lisa Branstetter in New York

European bonds had a positive session yesterday, with most markets closing between 1/4 and 1/2 point higher, while participants in the US Treasury market awaited the outcome of the first leg of the quarterly refunding.

Analysts in Europe were confident the short-term outlook was still positive.

"I cannot remember seeing such a favourable situation for financial markets," said Ms Marie Owens-Thomson, chief economist at BIP-Dresdner Bank in Paris. "A rising dollar, combined with lower oil and commodity prices and interest rates

heading downwards in Europe, make for an ideal environment."

German bunds ended higher, with the March bund future closing at 102.91, up 0.25, after reaching a high of 103.02 during the session. In the cash market, the 10-year benchmark bund rose 0.22 to end the day at 103.10, yielding 5.58 per cent. BIP-Dresdner expects the rally to continue in coming months, taking the yield on 10-year bunds down to around 5 per cent in June.

UK gilts showed one of the strongest performances, ahead of today's release of employment and earnings statistics for January, with traders reporting strong demand from overseas investors attracted by sterling's strong performance on the foreign exchange markets.

The UK currency rose from \$1.6440 in the morning to \$1.6490 in late afternoon trading in London. "Gilts should continue to benefit from the strong currency," said Mr Adrian Owens, an economist at Julius Baer Investments in London.

Liffe's March long gilt future settled at 113.1, up 1/4. In the cash market the 10-year yield spread between gilts and bunds tightened by 2 basis points to 167 points. Mr Howard Davies, deputy governor of the Bank of England, reaffirmed his belief that at least one rate rise of 25 basis points was needed for the government's inflation target to be met. His comments, however, did not weigh on market sentiment. "He did not say anything that we did not know before," one analyst said.

Market participants chose instead to focus on other declarations by Mr Davies, who played down the differences of view between the Bank and the chancellor of the exchequer.

Analysts said traders were braced for a hawkish stance in the quarterly inflation report due to be released today by the Bank of England, but few expect it to affect the gilt market.

"Gilts are already pricing in too much of a rate hike," Ms Owens-Thomson said.

Italian bonds underperformed other markets on Euro-related jitters and profit-taking after Monday's strong performance. On Liffe's March 10-year Italian bond future, the price ended a volatile session 0.26 lower at 130.82, well below its intraday high of 131.38, but off its low of 130.70. In

the cash market, the 10-year yield spread of BTFS over bunds widened by five basis points to 184 points.

"Convergence trades remain on track over the coming weeks, and the lira should do well against the D-Mark," said Mr Owens, at Julius Baer. He expects BTFS yields to resume their tightening over bunds towards the 130 basis point level.

French bonds also finished higher, with the March notional contract up 0.18 to 131.54 on Matif. In the cash market the 10-year OAT was up 0.26 to 107.53, yielding 4.95 per cent, less than the equivalent bund, unchanged from Monday.

US Treasury prices were flat in quiet trading ahead of the first leg of the Treasury department's quarterly refunding operations.

Near midday, both the benchmark 30-year Treasury and the two-year note were unchanged. The long bond held at 97 1/2 to yield 6.896 per cent and at the short end of the maturity spectrum, the two-year note was trading at 100 1/2, yielding 5.839 per cent.

The March futures contract on 30-year bonds climbed 1/4 to 112 1/2.

Bonds held steady despite some pressure from \$39.75bn worth of new supply set to come on to the market this week from three auctions by the Treasury.

At mid-afternoon the Treasury was to release the results of its auction of \$17.75bn in three-year notes. Existing three-year notes were unchanged at 99 1/2, yielding 5.946 per cent.

Mr Kevin Sluder, senior fixed-income trader at First

Chicago Securities, said he did not expect the three-year auction to set the tone for the refunding, because three-year notes are not as widely held as the 10-year and 30-year bonds to be sold later in the week.

Today the Treasury will auction \$18bn in 10-year notes and tomorrow it is to sell \$10bn in 30-year bonds.

Bonds derived some support from the dollar, which continued to hold steady in spite of comments that were interpreted as signs that they did not want a further rise in the US currency.

At midday the dollar had edged higher against the D-Mark and the yen, changing hands at DM1.6745 and ¥122.70 compared with DM1.6553 and ¥122.67 late on Monday.

## Canal Plus raises FFr2bn

By Edward Luce

Canal Plus, the French pay television service, yesterday offered a FFr2bn convertible bond exchangeable into shares in a leading Italian media company.

The dual-currency offering, priced to yield 3.5 per cent, will be convertible into shares in Mediaset, the Milan-listed media holding company of Mr Silvio Berlusconi, the Italian businessman, which launched its initial public offering last year.

Canal Plus is merging with NetHold, an Italian media company which owns 6.6 per cent of Mediaset. The offering, which will help finance NetHold's acquisition of Mediaset shares, is convertible at a 15.8 per cent premium to the shares - equivalent to L3,500.

"The issue has been well received in the UK, Switzerland and Italy," one dealer said yesterday. "It is perceived as an elegant way of refinancing NetHold's stake."

The offer is being led by UBS and Lehman Brothers in London. "It is quite unusual for a French company to choose non-French banks to lead manage a convertible issue," a syndicate official in London said.

The offer includes a provision for converting into a pure bond if the NetHold merger does not go ahead within six months of the settlement. The merger is expected to take place by April. The company can exchange the bonds for cash instead of shares within 22 days of investors choosing to convert. The five-year bond is callable after four years.

## Siemens uses Emu angle

## INTERNATIONAL BONDS

By Corinne Mellemann  
and Edward Luce

New issue activity in the eurobond market picked up yesterday, with benchmark deals for Siemens, the German electronic and engineering group, and the US Federal National Mortgage Association (Fannie Mae).

Siemens became the first corporation to issue "parallel bonds", taking advantage of the momentum towards a single European currency and underlining the company's commitment to European Monetary Union.

The deal, jointly co-ordinated by Deutsche Morgan Grenfell and J.P. Morgan, was heavily oversubscribed and performed strongly on its first day of trading.

In addition to the Emu angle, the overriding appeal of the bonds is their rarity

value, dealers said; Siemens has not been to the international fixed-income market for more than 25 years.

The transaction consists of three tranches of 10-year bonds with identical 5.5 per cent coupon and maturity dates, denominated in three currencies: DM750m, FFr2.5bn and F1500m.

Siemens will redenominate each tranche into euros once the relevant currency is part of Emu. When the three tranches are redenominated, the bonds will be consolidated in one large issue.

The D-Mark tranche was between three and four times subscribed, dealers said. Its 17 basis point launch spread over bunds narrowed to 14 points in late trading. About one-quarter was placed in Germany, with the rest going to accounts in the UK, Switzerland, Scandinavia, the Benelux region, France and the east Asia.

The guilden bond, jointly led by ABN Amro, was boosted by a strong Dutch institutional bid and its yield spread narrowed from 20 to 18 basis points. The French franc bond, jointly led by Paribas, remained bid at the offer spread of 14 basis points, but also saw wide-spread demand.

The 21bn global bond by Fannie Mae will be priced at 10 basis points above seven per cent UK gilts and will mature in June 2002. Traders said it was popular with institutions but it was unclear how retail investors, who dominate the five-year gilt market, would respond.

"We don't yet know where the home is for this paper," said one syndicate manager in London. The issue, which will be priced today, is led by BZW and Merrill Lynch. Elsewhere, Sears Roebuck Acceptance, the finance arm of the US retailer, issued

\$300m of bonds in a strategic deal signalling its return to the market after an absence of several years.

The issue was about 40 per cent oversubscribed, said lead manager J.P. Morgan, reporting strong placement in the UK and Switzerland, as well as the rest of Europe. The yield spread remained unchanged at 40 basis points over Treasuries.

The D-Mark sector saw a rare subordinated bond offering, DM400m of 10-year bonds for BayerVB Overseas Finance. According to SBC Warburg, joint bookrunner with Bayerische Vereinsbank, it is only the second subordinated D-Mark bond in a long time, following an issue in December for SBC.

The paper was placed mainly with yield-hungry institutions in the UK, Switzerland and France, and the 43 basis point launch spread narrowed to 40 points.

## New international bond issues

Borrower	Amount	Coupon	Price	Maturity	Yield	Spread	Book-runner
US DOLLARS							
Sears Roebuck Acceptance	300	5.5	98.77	Feb 2002	0.24	+40(basis) (2)	J.P. Morgan
Paribas Nordpark	250	6.0	98.52	Mar 2001	0.28	+92(basis) w/	Reichart/SBC Warburg
Foreign Export Credits	250	5.5	100.00	Mar 1999	1.20		BNP/Paribas
Bayipart	175	6.0	100.00	Mar 2002	0.25		BZW
Northernbank	100	6.0	100.00	Perpetual	0.45		CSFB/Salomon Brothers
US FRANCHES							
Siemens Co-ordination	750	5.5	98.18	Mar 2007	0.33	+17(basis) (7)	J.P. Morgan/Deutsche
Siemens Co-ordination	250	5.5	98.18	Mar 2007	0.33	+17(basis) (7)	J.P. Morgan/Deutsche
Siemens Co-ordination	150	5.5	98.18	Mar 2007	0.33	+17(basis) (7)	J.P. Morgan/Deutsche
NetWest Asia Australia	100	1.20	100.00	Feb 2002	0.30		Siemens International
US FRANCHES							
Siemens Co-ordination	250	5.5	98.18	Mar 2007	0.33	+17(basis) (7)	J.P. Morgan/Deutsche
Abbey National Nat Serv	250	5.75	98.88	Mar 2009	0.40	+21(basis)	Morgan Stanley
Alcatel Alsthom	150	5.5	98.17	Mar 2007	0.33	+17(basis) (7)	J.P. Morgan/Deutsche
Cent. Plant	250	5.5	100.00	Apr 2002	2.30		Siemens International
US FRANCHES							
Fannie Mae/Franchise	150	6.0	100.00	Jun 2002	0.25	+107(basis) (2)	BZW/Merrill Lynch
Hydro (Swiss)	20	8.75	106.33	Jul 2006	2.00		HSCB Markets
US FRANCHES							
Dresdner Bank	150	4.00	102.70	Mar 2009	0.40		CSFB
KW International Park	150	4.00	102.70	Mar 2009	0.40		CSFB
US FRANCHES							
Siemens Co-ordination	500	5.5	98.17	Mar 2007	0.33	+17(basis) (7)	J.P. Morgan/Deutsche
Siemens Co-ordination	250	5.5	98.17	Mar 2007	0.33	+17(basis) (7)	J.P. Morgan/Deutsche
Siemens Co-ordination	150	5.5	98.17	Mar 2007	0.33	+17(basis) (7)	J.P. Morgan/Deutsche
US FRANCHES							
Siemens Co-ordination	500	5.5	98.17	Mar 2007	0.33	+17(basis) (7)	J.P. Morgan/Deutsche
Siemens Co-ordination	250	5.5	98.17	Mar 2007	0.33	+17(basis) (7)	J.P. Morgan/Deutsche
Siemens Co-ordination	150	5.5	98.17	Mar 2007	0.33	+17(basis) (7)	J.P. Morgan/Deutsche

First terms, non-callable unless stated. Yield spread (over relevant government bond) as shown at launch. Spread shown at re-offer level. a) Unsubscribed, b) Subscribed, c) Floating rate, d) 3-month LIBOR, e) 6-month LIBOR, f) 9-month LIBOR, g) 12-month LIBOR, h) 15-month LIBOR, i) 18-month LIBOR, j) 21-month LIBOR, k) 24-month LIBOR, l) 27-month LIBOR, m) 30-month LIBOR, n) 33-month LIBOR, o) 36-month LIBOR, p) 39-month LIBOR, q) 42-month LIBOR, r) 45-month LIBOR, s) 48-month LIBOR, t) 51-month LIBOR, u) 54-month LIBOR, v) 57-month LIBOR, w) 60-month LIBOR, x) 63-month LIBOR, y) 66-month LIBOR, z) 69-month LIBOR, aa) 72-month LIBOR, ab) 75-month LIBOR, ac) 78-month LIBOR, ad) 81-month LIBOR, ae) 84-month LIBOR, af) 87-month LIBOR, ag) 90-month LIBOR, ah) 93-month LIBOR, ai) 96-month LIBOR, aj) 99-month LIBOR, ak) 102-month LIBOR, al) 105-month LIBOR, am) 108-month LIBOR, an) 111-month LIBOR, ao) 114-month LIBOR, ap) 117-month LIBOR, aq) 120-month LIBOR, ar) 123-month LIBOR, as) 126-month LIBOR, at) 129-month LIBOR, au) 132-month LIBOR, av) 135-month LIBOR, aw) 138-month LIBOR, ax) 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## COMMODITIES AND AGRICULTURE

## LME copper data dash hopes of end to squeeze

By Peter John

Keenly-awaited copper figures disappointed a market caught in the grip of one of the fiercest technical squeezes this decade.

Traders on the London Metal Exchange had been pinning their hopes on a stock rise of up to 10,000 tonnes to ease the market stranglehold.

However, the latest LME data released yesterday showed that stocks rose by only 2,650 tonnes.

That suggested to some analysts that the recovery might be losing momentum.

Consequently, three-month copper was pushed \$20 higher at one stage. Shares in UK companies such as BICC and Delta, which are big buyers of copper, were also weaker yesterday.

However, the premium for copper for immediate delivery, compared with copper for delivery in three months, eased by \$25 to \$155. The unwinding of the posi-

tion, and declines in the copper price on New York's Comex exchange, helped the price of the three-month contract turn round to end the day down almost \$20 at \$2,213.

Nevertheless, activity was constrained by the absence of many traders ahead of last night's Copper Club meeting in New York.

Opinion is divided as to how tight the copper market is. Figures for January from Metal Bul-

letin suggest total available stocks would satisfy about three and a half weeks of consumption by the western world - the lowest level since 1990 and one of the lowest on record.

On the other hand, Mr Peter Hollands, of Bloomsbury Minerals Economics, said the level was significantly higher at 4.7 weeks, and even that statistic ignores eastern bloc stocks which are at unusually high levels.

Mr Hollands also said LME sup-

ply had risen by 130,000 tonnes since the market's leanest time at the end of November.

Mr Angus MacMillan, of Billiton Metals, said: "We are moving inexorably into surplus. The only question is the pace of that move."

Believers in a more benign copper environment point to forecasts for an upsurge in output as new mines come on stream. They also say solvent extraction electro-

winning, a process that cuts out smelting and reduces costs and time, will expand dramatically over the next couple of years.

However, Mr Wiktor Bielski, of Deutsche Morgan Grenfell, believes the price has further to run.

"I think a lot of people are being too positive on production and too conservative on consumption. This tightness will continue for most of 1997 and maybe into 1998," he said.

## Coffee prices driven higher

## MARKETS REPORT

By Peter John

Coffee prices in London were driven higher by a severe shortage of stocks in New York which has encouraged arbitrage between the US Arabica contract and the UK Robusta.

Reports of a national strike in Colombia had sparked fundamental concerns. And roasters, the end users who have stayed away in the hope of lower prices, have been caught out by buying from speculative funds and are now trying to get into a tight market.

The London contract for May delivery rose \$43 to \$1,643 and dealers said the arbitrage against New York reached 89 cents.

Cocoa remained on the sidelines with the March contract falling \$15 to \$244 and the May contract slipping \$18 to \$269.

While there are concerns about oversupply from West Africa, cocoa has increasingly become a pure currency play as the strength of sterling overrides the fundamentals.

London Metal Exchange constituents slipped in spite of inventory figures showing a downturn in stocks.

Aluminium fell \$38 to \$1,547 during late trading on profit-taking and liquidation of long positions by investment funds.

Lead fell \$13 to \$644 and Nickel rose initially on the larger than expected draw-down but closed \$105 lower at \$7,730.

LME WAREHOUSE STOCKS (As at Thursday's close)	
tonnes	
Aluminium	-3,925 to 823,650
Aluminium alloy	-40 to 78,260
Copper	-4,650 to 21,470
Lead	-75 to 110,900
Nickel	-1,050 to 45,174
Zinc	-1,490 to 476,629
Tin	-315 to 5,500

## China poses 'no threat' to grain supplies

By Alison Maitland

China's growing demand for grain imports poses no threat to world grain supplies or food prices, according to a report by the International Food Policy Research Institute.

The study runs counter to predictions by the Worldwatch environmental research institute in Washington that Chinese grain requirements threaten to overwhelm world supplies.

The IFPRI, a Washington-based research body specialising in sustainable food production, says Chinese investments in agriculture will lead to increased domestic production and "prevent China from bankrupting world food supplies."

The country's grain imports should rise to a record 24m tonnes in 2000 and 27m in 2010, but stabilise at 25m tonnes a decade later, the report says.

These figures are lower than those projected by the Organisation for Economic Co-operation and Development in November. It put grain imports at about 40m tonnes in 2000 and 43m tonnes in 2010, but also concluded China would not

deplete world grain markets.

Mr Mark Rosegrant, research fellow at IFPRI and co-author of the new report, said his predictions were based on the most recent figures on Chinese government investment in irrigation and agricultural research, which resumed in the early 1990s.

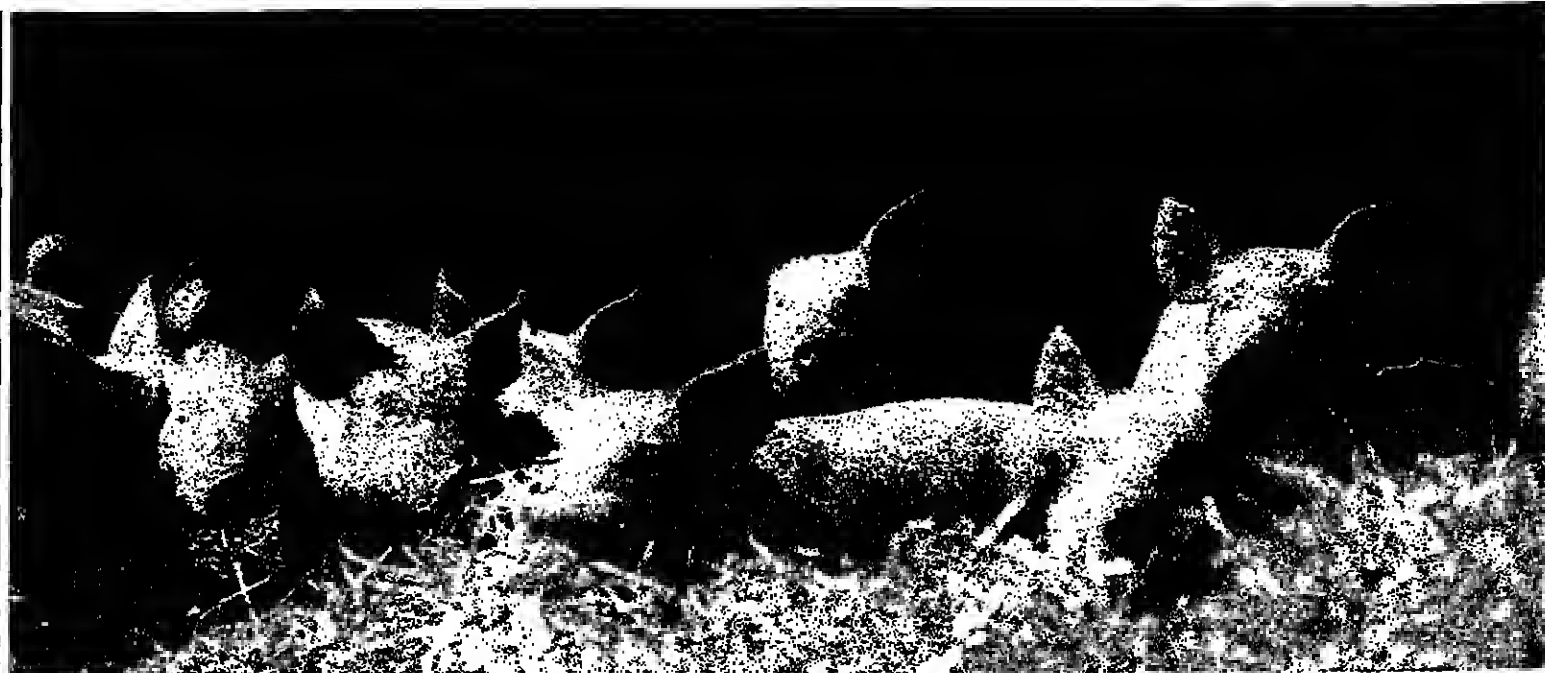
Mr Jikun Huang, director of the Centre for Chinese Agricultural Policy in Beijing and a co-author of both this and the OECD report, said: "In recent years China has responded with investments in agriculture as they are needed to increase productivity."

The Agriculture Bank of China announced earlier this month it would increase loans to the sector by 24 per cent this year, the report points out.

Under a scenario of high population growth, the study says imports would reach 52m tonnes in 2020, "still not drastic enough to cause a global food shortage."

The Worldwatch Institute has predicted that Chinese grain imports could reach 216m tonnes by 2030.

China's Food Economy to the 21st Century, IFPRI, 1200 17th St NW, Washington DC 20036-8006.



The US has banned imports of pork products from the Netherlands after an outbreak of swine fever in the south of the country, writes Gordon Cramb in Amsterdam. Dutch authorities this week began slaughtering upwards of 30,000 pigs on more than two dozen farms in North Brabant province.

The agriculture ministry in The Hague says the US takes only some 4 per cent of the 144,000 tonnes of pigmeat exported by the Dutch, and no live animals are included. The US move to remove the Netherlands from its list of countries free of swine fever follows a similar action by Poland.

Dutch pig breeders stressed that the outbreak, in which a 12th case was identified yesterday, was limited to a small area around Odiliapeel which had already been sealed off to agricultural traffic. The use of farm vehicles was also banned there during this week's carnival celebrations.

The disease, which is said to carry no danger for humans, has recurred in spite of stricter Dutch rules for the transport of pigs. Prices of pigs for slaughter have firmed on Amsterdam commodity markets, with April delivery animals fetching above £12,500 per kilogram.

## CBOT wheat futures recover from lows

By Laurie Morse in Chicago

Wheat futures prices for March delivery hit life of contract lows for the second consecutive session at the Chicago Board of Trade yesterday, although light fund buying helped prices recover by early afternoon.

The March contract is just weeks from delivery, and commercial buyers and other traders were busy closing March positions in favour of July, when new crop wheat will be available.

Mr Victor Lospinasse, floor trader and grains analyst at Dean Witter Reynolds, said

the markets were quiet ahead of Wednesday's US Department of Agriculture report on world grain production, and the latest government estimates for US grain supply and demand.

Traders expect the USDA to raise estimates again for Australia's wheat produc-

tion, to about 23m tonnes, and lift forecasts of soyabean and maize production in South America.

Meanwhile, though world stocks are rising, traders expect the report to underscore tight US supplies of soyabean and wheat.

"We're forecasting the

soyabean carry-out figures to be revised to 140m bushels," said Mr William Biederman, grains analyst with Allendale, the Chicago-based consultant. That compares with the USDA's January projection that 155m bushels of soyabean will remain in store at the end of year.

## COMMODITIES PRICES

## BASE METALS

## LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

## ALUMINIUM, 99.7 PURITY (\$ per tonne)

Cash 1525.5-6.5 1529.80

Previous 1525.5-6.5 1529.80

High/Low 1525.5-6.5 1529.80

AM Official 1547.42 1574.74.5

Kerb close 1584.5

Open int. 251,033

Total daily turnover 368,520

## ALUMINIUM ALLOY (\$ per tonne)

Cash 1445.55 1475.80

Previous 1445.55 1475.80

High/Low 1445.55 1475.80

AM Official 1450.45 1451.495

Kerb close 1490.42

Open int. 5,455

Total daily turnover 2,326

## LEAD (\$ per tonne)

Cash 839.5-40.5 849.50

Previous 839.5-40.5 849.50

High/Low 839.5-40.5 849.50

AM Official 849.50 858.45

Kerb close 858.45

Open int. 37,860

Total daily turnover 10,559

## NICKEL (\$ per tonne)

Cash 7700-10 7790-800

Previous 7700-10 7790-800

High/Low 7700-10 7790-800

AM Official 7825 7840/7880

Kerb close 7880.50

Open int. 82,362

Total daily turnover 12,438

## TIN (\$ per tonne)

Cash 5830-40 5905-10

Previous 5830-40 5905-10

High/Low 5830-40 5905-10

AM Official 5880.85 5920.45

Kerb close 5910.20

Open int. 15,439

Total daily turnover 4,080

## ZINC, special high grade (\$ per tonne)

Cash 1154.5-55.5 1175-6

Previous 1154.5-55.5 1175-6

High/Low 1154.5-55.5 1175-6

AM Official 1183.54 1174.75

Kerb close 1179.5

Open int. 87,837

Total daily turnover 13,747

## COPPER, grade A (\$ per tonne)

Cash 2385-70 2220-2

Previous 2385-70 2220-2

High/Low 2385-70 2220-2

AM Official 2395.88 2235-37

Kerb close 2232.3

Open int. 147,012

Total daily turnover 1,415

## LME ASB OFFICIAL 975 index, 1.9405

LME Closing 975 index, 1.9405

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## HIGH GRADE COPPER (COMEX)

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**FT MANAGED FUNDS SERVICE**[illegible][illegible]



## Offshore Insurances and Other Fund

Offshore Insurances and Other Fund

The bond prices published in this section are also available at the Financial Times web site, <http://www.FT.com>



**INVESTMENT TRUSTS - Cont.**[illegible]

The Financial Times plans to publish a Survey on

**UK Mid - Market Companies**

on Friday, March 14

The survey is timed to coincide with the eleventh annual Coopers & Lybrand PLC Awards with which the Financial Times is pleased to be associated for the first time this year.

The survey will give a detailed analysis of the important but often overlooked economic sector represented by the UK's medium sized companies and presents a crucial advertising opportunity for all organisations keen to nurture fledgling relationships with the high-fliers of tomorrow.

For a full editorial synopsis and details of available advertising opportunities please contact:

**Chris Aston Tel: 0171 873 4196 or Fax: 0171 873 3062 or write to him at: The Financial Times, Number One Southwark Bridge, London, SE1 9HL**

**or your usual Financial Times representative**

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LONDON SHARE SERVICE

TRUSTS SPLIT CAPITAL - Cont.

Company	Price	Change
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MEDIA - Cont.

Company	Price	Change
...	...	...

PAPER, PACKAGING & PRINTING - Cont.

Company	Price	Change
...	...	...

RETAILERS, GENERAL - Cont.

Company	Price	Change
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TEXTILES & APPAREL - Cont.

Company	Price	Change
...	...	...

AIM - Cont.

Company	Price	Change
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OTHER INVESTMENT TRUSTS

Company	Price	Change
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OIL EXPLORATION & PRODUCTION

Company	Price	Change
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INVESTMENT COMPANIES

Company	Price	Change
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OIL, INTEGRATED

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OTHER FINANCIAL

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INSURANCE & HOTELS

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PAPER, PACKAGING & PRINTING

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PROPERTY - Cont.

Company	Price	Change
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SUPPORT SERVICES - Cont.

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RETAILERS, FOOD

Company	Price	Change
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TELECOMMUNICATIONS

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INSURANCE

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RETAILERS, GENERAL

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TEXTILES & APPAREL

Company	Price	Change
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AIM

Company	Price	Change
...	...	...

SOUTH AFRICANS

Company	Price	Change
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GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Eikon, part of Reuters. Information is based on data supplied by the FTSE 100 and other sources. The service is available to all subscribers.

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## WORLD STOCK MARKETS


**Rockwell**

## US INDICES

## AFRICA

**INDEX FUTURES**[illegible][illegible]

\* All 1,000; JSE Gold - 254.7; JSE 35 Industrials - 294.2; Nikkei 225 - 11,713.6; FTSE 100 - 5,111.1  
 \* Figures in brackets are previous day's. \* Subject to official reconciliation.  
 \* Jan Comp - 550; [5] Montreal ♦ Toronto. (C) Closed. (U) Unavailable. † WTS/DAX after-hours index: Feb 11 - 3181.40 +57.3

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1. *Journal of the American Medical Association*, 2000; 283: 2689-2693.



## NEW YORK STOCK EXCHANGE PRICES

Continued on next page

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**FINANCIAL TIMES**



## 4 nm close February

4 nm close February

**NASDAQ NATIONAL MARKET**[illegible]

7A	- $\frac{1}{8}$	Karranogen	1190	3 $\frac{1}{2}$	3 $\frac{1}{2}$	3 $\frac{1}{2}$	Paccar	1.00	16	1688	68 $\frac{1}{2}$	67 $\frac{1}{2}$	68 $\frac{1}{2}$	+ $\frac{1}{2}$	
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7C	- $\frac{1}{8}$	Jed Star	855	15 $\frac{1}{2}$	15	15 $\frac{1}{2}$	- $\frac{1}{8}$								

[illegible][illegible]

Company	Mid price	Change on open	Volume	High	Low	Company	Mid price	Change on open	Volume	High	Low
Activision	US\$9.125		36,600	9.35	8.75	Mariner Internet	US\$10.00	+0.125	0	11.375	10.00
Amgen Systems	US\$1.00	+0.125	330,000	1.15	0.90	NetScitec	US\$10.00	+0.125	0	11.375	10.00
De Telemaq ADS	US\$23.25	+0.25	180	28.125	18.00	Esquad Networks Intd	11.00	0	0	0.75	4.75
Innovative	US\$1.15	+0.25	271,750	1.25	1.00						

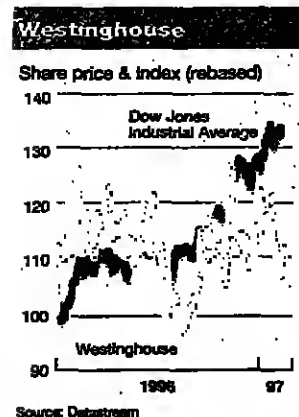


# Early techs rally attempt fizzles out

## AMERICAS

An early attempt by technology shares to rebound from Monday's deep losses ran out of steam by midsession leaving shares mostly flat, writes Lisa Brannen in New York.

The Nasdaq composite jumped nearly 10 points at the opening, but by early afternoon it had fallen into negative territory. Near 1pm, the Nasdaq was 4.10 lower at 1,331.24 and the Pacific Stock Exchange tech-



shed on Monday, bringing the shares to \$38.

The Dow Jones Industrial Average was also off its session highs by midday, but it managed to remain in positive territory. At 1pm the blue-chip index was 8.47 stronger at 6,815.01 while the Standard & Poor's 500 slipped 0.34 at 785.09. NYSE volume was 262m shares.

Westinghouse, the only company in the Dow to put out earnings yesterday, advanced 4% or 4 per cent to \$18.40 after reporting fourth-quarter operating earnings that were slightly better than analysts had expected.

Time Warner jumped 1% or 8 per cent at \$40.40 after reporting a smaller-than-expected loss for the fourth quarter. The media giant put its quarterly loss at 8 cents per share, about 8 cents less than analysts had expected.

Motorola slid 3% or 6 per cent to \$63.75, in part because of a warning put out by Ericsson, its Swedish competitor, that it believed there would be continued pricing pressures in the telecommunications sector. American depositary receipts of Ericsson slipped 1% or 5 per cent to \$32.75.

TORONTO was in positive territory at midsession, helped by a strong performance by the banking sector after Goldman Sachs raised its rating on five of the so-called big six banks.

The TSE-300 composite index was 31.93 higher by midsession at 6,113.20 in heavy volume of 53.8m shares. The banks and unit trusts index jumped 2.5 per cent on news of the ratings upgrades. Royal Bank of Canada led the charge with a rise of C\$1.45 to C\$54.70, off an early high of C\$56.30.

## Mexico City recovers

MEXICO CITY recovered from an early slide as foreign bargain hunters stepped into the market following its recent slide. The IPC index was 23.75 higher by midsession at 3,707.88 in heavy volume.

One analyst attributed the recovery to expectations of further cuts in primary interest rates at the Treasury bill auction later in the day. Primary rates were still expected to fall, he said, adding that foreigners were investing in the money mar-

## S Africa shares off highs

Johannesburg ended slightly firmer, but well off its best, held back by a weak rand which reacted poorly to comments from the central bank governor, Mr Chris Stals.

The rand slumped more than 5 cents against the dollar after Mr Stals said the currency's recent rally to six-and-a-half-month highs could have been a slight over-adjustment.

More upbeat, however, was Mr Stals' comment that interest rates might be cut towards the end of the year. He added that the 1996 current account deficit would be well below

the 1995 level of R10bn. The overall index finished 15.0 higher at 6,973.0 as industrials added 6.6 to 6,293.1. Golds picked up 7.9 to 1,858.3, in spite of a struggling bullion price. Turnover was a hefty R963m.

Some stocks, particularly in the financial sector, had a good day, taking the sectoral index up to a fifth consecutive closing high.

Among the blue chips, Anglo was 500 cents higher at R268 and SA Breweries put on 125 cents to R133.75. Liberty Life dropped 60 cents to R130 and Stanbic lost 125 to R188.75.

# Paris explores situations, bourses mixed

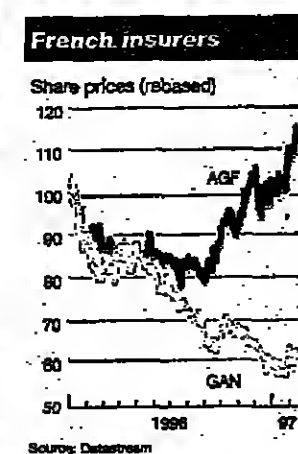
## EUROPE

A wavering Dow had firmed by the end of the European day, bond futures had peaked and the dollar was over DM1.67 again; some bourses liked that, but others were mindful of the weakness in US equities in Tuesday's afternoon session.

PARIS waited for Wall Street, then fell anyway, the CAC 40 index closing 13.28 lower at 2,582.09. Among the big sector indices, financials and industrials were flat, oils were weak again, and it was left to individual situations to bring some character into the day's business.

In financials, merger speculation moved from banks to insurers where GAN put on FF7.10 or 6.8 per cent at FF112.10; AGF, regarded by some as a potential suitor for GAN, and by others as a target for a bigger predator, itself rose FF9 or 5 per cent to FF189.

In industrials, Dassault Systems rocketed by 13.2 per cent, the company, a specialist in computer-assisted design and manufacturing, gaining FF40 at FF343 after it reported a 55 per cent jump in 1996 net income. Meanwhile, the computer systems house, Cap Gemini, said again that it would envisage selling its 36 per cent holding in its Cisl affiliate, a systems integration



and outsourcing combine, and rose FF14.20 or 4.8 per cent to FF310.

FRANKFURT took a stab at the 3,500 level, peaked intra-day at 3,197.88 and closed with the Dax index 5.73 higher at a new all-time high of 3,191.45, up 5.73. Turnover, reflecting the pre-Lenten holiday, eased again, from DM11.5bn to DM10.1bn.

Reflecting the dollar, and individual recommendations, carmakers were among the day's winners with BMW up DM31 or 2.8 per cent to DM1,128 and Porsche puffed another DM55 or 3.1 per cent higher at DM1,890 - the latter after Mr Chris Will at Lehman Brothers, a recently consistent bull of the stock, raised his price target to DM2,000 by mid-1998.

Companies in the news were not so fortunate. Scheduling produced a better-than-expected 46 per cent gain in 1996 net profits, but after a positive response in early trading the pharmaceuticals group subsided to close 10 pips lower at DM144.30; on the floor, Linotype-Hell, currently restructuring as it shifts its focus from newspaper printing to professional graphics industry machinery, fell DM3 to DM122 after a higher operating loss in 1996.

ZURICH overcame midday weakness to close at a ninth consecutive all-time high, lifted by heavy demand for Novartis as the company prepared for the imminent spin-off of its Ciba Specialty Chemicals subsidiary.

The SMI index rose 11.91 to 4,408.4, extending its advance since the start of the year to 11.6 per cent. Novartis jumped Sfr40 to Sfr1,742 on foreign and domestic demand following recent brokers' recommendations. Roche certificates ran into profit-taking, losing Sfr90 to Sfr12,375.

Alusuisse fell Sfr8 to Sfr1,201 after an 8 per cent rise in 1996 net profit failed to live up to some expectations.

SMH, under pressure in recent sessions, dipped to a low of Sfr930 but picked up to close Sfr11 weaker at

**FTSE Actuaries Share Indices**

Feb 11	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Actuaries 100	2131.10	2130.05	2129.75	2130.25	2131.05	2131.43	2132.03	2133.29
FTSE Actuaries 200	2163.80	2161.55	2161.53	2161.70	2163.38	2163.72	2161.90	2164.02

Feb 10 Feb 7 Feb 6 Feb 5 Feb 4

FTSE Actuaries 100 2125.80 2103.55 2098.80 2081.22 2086.79  
FTSE Actuaries 200 2156.70 2148.50 2121.63 2120.24 2104.97

See also 1000 (S&P500) High/Low: 100 - 2131.25; 200 - 2165.75; Low/Low: 100 - 2128.75; 200 - 2157.81; 1 Point

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which produced a 33 per cent jump in profits but talked about pricing pressure in telecoms products. Ericsson lost Sfr4 at Sfr248 and, in spite of gains in forestry and in Astra, the Affärsvärden General Index fell 2.0 to 2,644.5.

HELSINKI peaked again with the Hex index up 15.54 at 2,837.45. Forestry stocks rose 2.7 per cent gain after notice of a paper price increase.

The mobile phone maker, Benetton, kept FM3.50 or 0.8 per cent to FM87 on talk that it would soon launch its first GSM (Global System for Mobile Communication) handset; the retailer and wholesaler, Semra, added a 23 per cent gain to Monday's 63 per cent advance, closing FM60 higher at FM320 on its involvement in Kesko's reshaping.

However, the confectionery and packaging group, Huhtamäki, fell FM5 to FM218 on lower-than-expected 1996 earnings.

STOCKHOLM, in contrast, was undermined by Ericsson

ATHENS added to Monday's 2.8 per cent jump with another of 2 per cent on heavy demand from increasing numbers of foreign and domestic investors.

Analysts noted that the general index, up 23.90 at 1,244.59, had broken through strong resistance at 1,200 points on Monday. Some forecast that the new resistance level of 1,270-1,300 could be tested later in the week.

The upbeat mood had been attributed to lower than expected January inflation data and falling interest rates. Investors were also said to be shifting their attention from large-caps and rallying blue chips into smaller cap stocks.

Traders noted continued strong demand for investment and leasing stocks, which traditionally performed well in the first quarter of the year since they were among the first companies to distribute dividends. Leasing shares jumped 3.5 per cent and the investment sector, gained 1.7 per cent, while banks led the rally with a rise of 8.3 per cent.

MOSCOW remained in record-breaking form with the RTS-24 index rising another 7.7 to 312.60, a turnover of \$50m.

Written and edited by William Cochrane and Michael Morgan.

# Hong Kong drops 1.4%, Taipei sets six-year high

## ASIA PACIFIC

Weak futures and continued selling in the property sector dragged HONG KONG down 1.4 per cent as investors also took the view that last week's rally had been overdone.

The Hang Seng index fell 169.33 at 13,454.21 in turnover of HK\$7.6bn as some investors interpreted the strength of the US dollar against the local currency as an indication that some foreign funds were leaving the Hong Kong market.

Analysts noted that February Hang Seng index futures closed 180 points lower at 13,330, a substantial discount to the cash market.

Property stocks remained under pressure in the face of the Hong Kong Monetary Authority's recommendation to limit mortgage lending for luxury properties. Sun Hung Kai Properties tumbled HK\$2.75 to HK\$88.35 and Henderson Land fell HK\$1.50 to HK\$70.00.

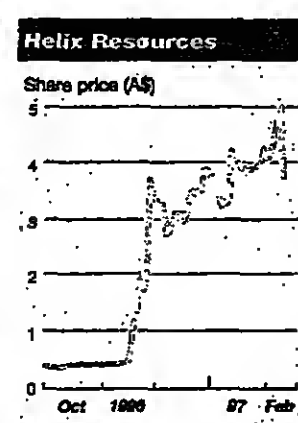
Among the blue chips, HSBC Holdings fell HK\$2.50 to HK\$187 and Hang Seng Bank slumped HK\$3 to HK\$91.50.

Oriental Metals, up 17.8 per cent on Monday, rose another 17% cents to HK\$2.45 as the company said it was unaware of any reason for the surge.

TAIPEI set out to prove that there was still life in the pre-holiday rally, bringing in the Year of the Ox with the weighted index up 63.59 at a six-year high of 7,410.47.

It was the sixth consecutive rise for the index. Electronics led the gains on hopes for high dividends, with Asustek and Inventec both limit up, TS22 higher at TS347 and TS14 better at TS223 respectively.

Analysts had predicted that Asustek's earnings per share for 1997 would exceed TS30 and that Inventec



would surpass TS20. After the close, Taiwan Semiconductor, Taiwan's top chipmaker, announced a 29 per cent jump in 1996 net profits after a rise of 50 cents to TS58 on the session.

BOMBAY closed near the day's best levels on continuing speculation that the February 28 budget would include market-friendly measures.

The BSE-30 index rose 56.72 or 1.7 per cent to 3,502.27 in largely domestically driven trade.

Some funds were keen buyers of cement stocks in anticipation of incentives thought likely to be given to the industry.

ACC, the cement maker, rose Rs90.75 or 5.8 per cent to Rs1,463. Gujarat Ambuja Cement, which last week announced a 50 per cent rise in net profit for the first half, ending December 1996, jumped Rs2.55 or 3.8 per cent to Rs233.25.

SYDNEY held up relatively well, given the dip in the Dow and weaker base metals prices. Domestic investors focused on forthcoming interim results and the All Ordinaries index spent most of the day in a six-point trading band before it closed 1.7 higher at 2,443.1, in turnover of A\$242m. However, there was light

and shade. At the dark end of the day's spectrum the gold hope, Helix Resources, dropped 25 per cent after it released more drilling results from its Timbuktu prospect in the Gawler Craton region of South Australia. The results were seen as disappointing, but brokers noted that the shares had come up from a low of only 27 cents last year.

Among the majors, Bank of Melbourne fell 25 cents to A\$5.55 after flat first-half net profits and Commonwealth Bank, with first-half results due today, fell 17 cents to A\$13.59 after a record-breaking run; but the rural and energy group, Westfarmers, climbed 25 cents to A\$9.65.

TOKYO was closed for National Foundation Day. This did not stop Mr Eisuke Sakakibara, director of the international finance bureau of the Japanese Ministry of Finance, from saying that the ailing market had "gone a bit too far" in an interview with a Japanese daily newspaper. Mr Sakakibara was dubbed "Mr Yen" by the media last year for his efforts to halt the Japanese currency's rise.

In London yesterday, however, dealers were not impressed and the ISE/Nikkei 50 index fell 1.19 to 1,375.52.

after Monday's first half operating profit gain of 48 per cent, and a higher interim dividend.

SEOUL moved ahead for a sixth straight session on the back of falling interest rates, as shares of mining companies took centre stage after news that a mining region would be developed as a resort. The composite index ended 2.64 points higher at 713.43.

The Ministry of Construction and Transportation said that Won2,540bn would be invested by 2005 to develop a coal mining region in Kangwon Province into a leisure town, including ski trails, hotels and golf courses.

Dong Won, the coal miner, rose Won3,800 to its daily

limit of Won52,400 and Daesung Resources added up Won7,700 to Won107,000. Young Poong Mining and Construction, a gold miner, went up Won3,200 to Won47,300.

Samsung Electronics rose Won800 to Won54,700, on expectations of a recovery in the recently weak shares.

SINGAPORE was broadly firm although a spate of profit-taking in index stocks late in the day sent the Straits Times Industrials index down from a high of 2,211.79 to close 6.34 weaker at 2,197.05.

Among markets closed yesterday were Kuala Lumpur, Jakarta, Karachi, Shanghai and Shenzhen.

## FT/S&P ACTUARIES WORLD INDICES

FTSE FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries, NewWest Securities Ltd, was a co-founder of the indices.																
NATIONAL AND REGIONAL MARKETS		MONDAY FEBRUARY 10 1997					FRIDAY FEBRUARY 7 1997					DOLLAR INDEX				
Figure in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Points	Yen Index	DM Index	Currency Index	Local % chg on day	Grain D. Yield	US Dollar Index	Storling Index	Yen Index	DM Index	Currency Index	High	52 week low	Year ago (approx)
Australia (76)	213.20	-0.8	193.51	185.53	183.50	187.33	-0.1	4.07	214.30	196.20	188.38	183.77	187.49	224.81	186.44	187.08
Austria (24)	184.79	1.4	167.72	143.47	139.14	159.08	0.5	1.83	182.18	168.38	143.55	158.38	158.30	195.04	174.70	186.57
Belgium (29)	222.24	1.0	210.79	190.32	200.01	195.76	0.1	3.30	228.89	208.95	181.14	199.85	199.53	223.47	205.94	212.09
Brazil (28)	224.14	0.0	203.43	174.02	153.02	142.04	-0.0	1.41	224.07	204.84	178.56	154.80	152.04	224.14	147.48	186.73
Canada (114)	198.38	-0.3	180.07	154.03	170.85	194.12	-0.1	1.90	198.87	181.71	155.79	172.87	194.38	201.82	153.81	157.54
Denmark (32)	389.13	1.0	335.04	296.80	317.89	316.93	-0.1	1.38	385.64	333.92	288.11	317.87	317.12	389.13	331.30	302.22
Finland (28)	262.78	1.8	238.52	204.04	228.32	270.71	0.7	1.84	238.63	226.20	203.79	224.84	238.64	262.78	274.47	186.38
France (82)	292.06	0.9	261.57	172.43	191.29	194.76	-0.1	2.52	292.18	261.08	173.49	191.41	194.87	292.06	185.15	183.15
Germany (59)	194.91	-2.4	176.91	151.34	157.89	187.56	-1.4	1.48	190.37	173.95	150.00	165.50	165.50	194.91	164.47	168.77
Hong Kong (59)	504.78	-0.8	454.71	388.87	431.44	498.24	-0.8	3.12	504.85	461.08	397.00	438.89	502.15	514.48	402.53	440.28
Indonesia (27)	248.80	-0.1	224.15	191.74	212.69	280.42	0.0	1.48	247.11	226.68	194.72	214.83	247.11	226.68	194.72	214.83
Ireland (16)	359.64	2.1	309.45	265.86	252.67	288.80	1.2	1.07	309.45	265.86	252.67	288.80	309.45	265.86	252.67	288.80
Italy (69)	96.22	-0.4	86.42	73.90	82.00	115.78	-0.3	1.61	85.63	73.24	73.35	83.14	115.80	96.32	70.81	60.20
Japan (480)	112.04	2.8	101.59	86.89	98.49	86.99	0.7	0.90	108.18	99.99	86.01	94.90	86.01	104.68	106.15	123.73
Malaysia (107)	635.22	0.3	578.85	493.20	547.04	608.51	0.0	1.02	633.29	578.45	489.06	550.94	608.31	635.22	511.95	514.16
Mexico (27)	1344.64	0.7	1220.44	1044.01	1157.98	1149.50	1.1	0.96	1335.42	1219.60	1082.29	1180.89	1332.99	1344.64	1045.59	1182.29
Netherlands (19)	335.42	0.2	304.44	260.43	288.88	284.76	-0.1	2.00	332.44	303.60	261.85	288.00	284.91	335.15	274.35	275.52
New Zealand (14)	38.09	0.2	78.95	68.40	78.86	86.30	0.0	4.08	87.92	82.30	68.38	78.44	84.38	86.70	78.41	78.41
Norway (41)	314.24	-0.3	285.22	243.99	270.62	270.76	-0.4	0.81	315.50	288.01	244.89	274.18	291.77	319.57	230.82	230.82
Philippines (22)	210.94	0.3	181.46	163.79	161.89	277.00	0.3	0.62	210.31	182.07	166.72	162.85	210.31	182.07	166.72	277.00
Singapore (43)	431.76	0.4	381.90	335.24	371.54	280.26	0.0	0.98	428.95	382.68	338.79	373.78	380.29	460.80	371.29	449.50
South Africa (44)	357.20	2.2	324.21	277.34	307.82	343.87	1.5	2.36	348.45	318.14	275.35	303.78	338.93	428.32	301.49	439.32
Spain (83)	218.42	0.9	192.26	169.59	188.10	231.81	0.0	2.70	218.48	191.71	170.58	188.20	231.51	223.18	151.95	184.61
Sweden (50)	431.39	2.3	381.55	334.84	371.51	468.44	1.3	1.90	421.54	384.98	332.15	388.48	430.35	432.49	310.42	428.50
Switzerland (38)	250.83	1.8	227.39	194.52	216.76	221.80	0.5	1.31	248.65	228.25	194.55	214.42	220.48	254.34	222.84	222.84
Thailand (49)	81.91	-2.2	74.34	63.59	70.54	82.48	-2.5	4.15	83.73	76.47	68.88	72.79	84.58	188.40	81.91	188.40
United Kingdom (211)	281.81	0.6	255.79	218.80	242.08	253.79	0.0	3.72	280.06	255.77	220.67	245.47	255.77	281.71	224.39	281.71
USA (854)	319.53	-0.5	290.02	248.09	275.18	319.53	-0.5	1.87	321.23	293.37	253.12	279.27	321.23	293.37	253.12	279.27
Argentina (23)	292.81	-0.5	265.59	227.18	252.00	245.08	-0.5	1.65	294.08	268.58	231.73	255.67	294.28	324.09	233.03	243.02
Brazil (28)	244.53	1.1	221.04	189.88	210.59	221.78	0.3	2.63	241.34	220.96	180.64	210.33	221.21	244.33	201.85	216.95
Canada (151)	376.43	1.7	341.68	292.27	324.18	353.48	0.8	1.80	370.09	337.96	291.61	321.73	350.70	376.43	279.27	279.27
France (82)	133.94	1.6	121.48	103.91	118.28	103.08	0.7	1.40	131.50	120.00	103.91	118.28	103.08	133.94	103.08	103.08
Germany (59)	176.91	-2.4	167.91	151.34	157.89	187.56	-1.4	1.48	190.37	173.95	150.00	165.50	165.50	194.91	164.47	168.77
Hong Kong (59)	504.78	-0.8	454.71	388.87	431.44	498.24	-0.8	3.12	504.85	461.08	397.00	438.89	502.15	514.48	402.53	440.28
Indonesia (27)	248.80	-0.1	224.15	191.74	212.69	280.42	0.0	1.48	247.11	226.68	194.72	214.83	247.11	226.68	194.72	214.83
Ireland (16)	359.64	2.1	309.45	265.86	252.67	288.80	1.2	1.07	309.45	265.86	252.67	288.80	309.45	265.86	252.67	288.80
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Netherlands (19)	335.42	0.2	304.44	260.43	288.88	284.76	-0.1	2.00	332.44	303.60	261.85	288.00	284.91	335.15	274.35	275.52
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South Africa (44)	357.20	2.2	324.21	277.34	307.82	343.87	1.5	2.36	348.45	318.14	275.35	303.78	338.93	428.32	301.49	439.32
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Thailand (49)	81.91	-2.2	74.34	63.59	70.54	82.48	-2.5	4.15	83.73	76.47	68.88	72.79	84.58	188.40	81.91	188.40
United Kingdom (211)	281.81	0.6	255.79	218.80	242.08	253.79	0.0	3.72	280.06	255.77	220.67	245.47	255.77	281.71	224.39	281.71
USA (854)	319.53	-0.5	290.02	248.09	275.18	319.53	-0.5	1.87	321.23	293.37	253.12	279.27	321.23	293.37	253.12	279.27
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France (82)	133.94	1.6	121.48	103.91	118.28	103.08	0.7	1.40	131.50	120.00	103.91	118.28	103.08	133.94	103.08	103.08
Germany (59)	176.91	-2.4	167.91	151.34	157.89	187.56	-1.4	1.48	190.37	173.95	150.00	165.50	165.50	194.91	164.47	168.77
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